1979 ANNUAL REPORT

Boise Cascade

About the Company

Boise Cascade Corporation is an integrated forest products company headquartered in Boise, Idaho. It is engaged principally in the manufacture, distribution and sale of paper, packaging and office products, wood products and building materials. In addition, the company has one of the industry's more extensive timber bases on which it grows and harvests timber to support these operations. Its timberlands and manufacturing facilities are located primarily in the U.S. and Canada.

About the Photographs

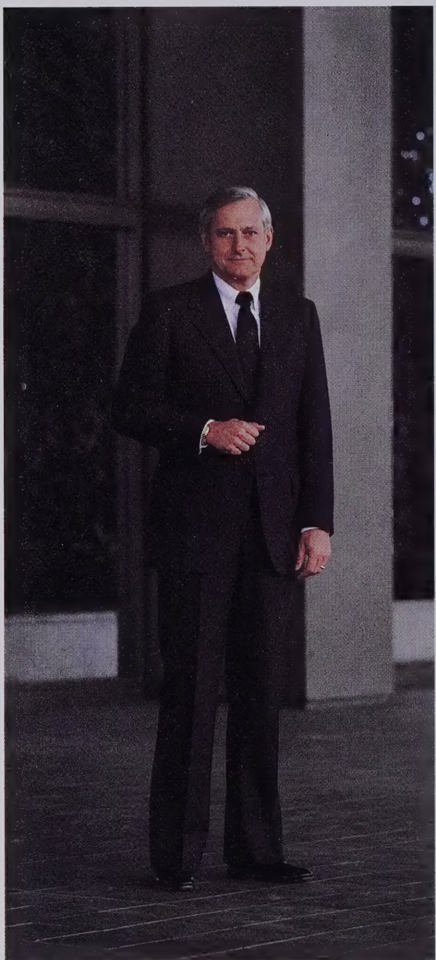
The photographs in this report were chosen to illustrate the combination of resources and people which is the strength of Boise Cascade. Our resource list includes our attractive product mix as well as good financial, capital, timber and human resources. But the judicious and profitable use of this resource base requires the ability to manage effectively. The people pictured throughout the report are representative of this ability. The year covered in this report was outstanding, and we believe the long-term outlook for Boise Cascade is favorable indeed.

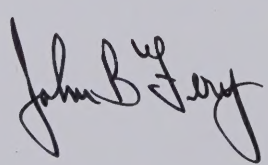
Financial Highlights

	1979	1978
Sales	$2,916,610,000	$2,573,110,000
Income before extraordinary items	174,920,000	135,700,000
Extraordinary items	—	(2,900,000)
Net income	174,920,000	132,800,000
Per Common Share		
Income before extraordinary items	$ 6.52	$ 5.02
Extraordinary items	—	(.11)
Net income	$ 6.52	$ 4.91
Shareholders' equity	$44.09	$38.99
Number of employees		
North America	35,491	35,471
Foreign	223	233
	35,714	35,704
Number of common shareholders	49,574	52,646
Number of shares of common stock outstanding at year end	26,601,677	27,004,896

Contents

To Our Shareholders





John B. Fery
Chairman of the Board
Chief Executive Officer

"management/măń-ĭj-ment/n.: judicious use of means to accomplish an end." Management is a subject which will receive considerable attention in this annual report.

Despite inflation, 1979 was another excellent year for Boise Cascade. Net income was $175 million, or $6.52 per share, compared with 1978 income of $136 million, or $5.02 per share, before a net extraordinary charge of $2.9 million, or 11¢ per share. Sales rose to $2.9 billion from $2.6 billion the previous year. And return on shareholders' equity (ROE) advanced to 15.7% in 1979 from 13.5% the year before.

During the same period, we invested a record $486 million in capital improvements, increased the annualized dividend on our common stock from $1.25 to $1.50 per share and maintained a solid financial position. In February 1980, the annualized dividend rate was raised to $1.75.

Demand for our mix of paper products was strong throughout 1979, and homebuilding activity was relatively high until the last quarter of the year. These generally favorable market conditions — combined with capital investments which added productive capacity, increased operating efficiency and lowered our effective tax rate through investment credits — were principally responsible for the company's record-breaking performance.

In May 1979, Stephen B. Moser, a director and former chairman of the board, retired after 51 years of service to Boise Cascade and a predecessor company. Just after the close of the year, William S. Cook, president and chief operating officer of Union Pacific Corporation, became a director of Boise Cascade. In February, Charles A. Anderson, former president and chief executive officer of SRI International, was also elected a director.

The coming year will be difficult for our nation, our industry and our company as the economy suffers the effects of inflation and an expected recession. Our 1980 planning assumptions are based on negative growth (minus 1.5%) in real gross national product and inflation of more than 10%. In addition, the Federal Reserve Board has taken action designed to control inflation by squeezing credit. A by-product of that action, of course, has been an increase in the cost and a decrease in the availability of mortgage funds, which has had a depressing effect on homebuilding. As one consequence, we expect housing starts to decline to about 1.4 million units in 1980, compared with 1.7 million in 1979. We anticipate, therefore, that the 1980 results from our building materials and related businesses will not equal those achieved in 1979. Prospects for our paper and related businesses are more encouraging, and we expect results in 1980 to be at least comparable to those of the previous year. It should be noted that our industry faces numerous labor negotiations in 1980. Given this overview, it will be difficult for the

company's overall performance in 1980 to match 1979's.

Longer term, the outlook is very favorable for Boise Cascade. Indeed, the outlook is favorable for those other forest products companies which also have an attractive product mix and good financial resources, capital resources (plant, property, equipment), timber resources and human resources. What will truly distinguish one company from another in the future is the ability to manage these resources effectively.

We believe Boise Cascade is beginning to distinguish itself as an effective manager of these resources. This results, in part, from our strategic planning process. In essence, our business planning (which is explained on page 27 in the Financial Review section of this report) helps us to be effective resource managers. Our planning has led, for example, to the development, implementation and completion of our prior five-year capital investment program (1974-78) through which $1.2 billion went into significant capital improvements. The company's performance in 1979 reflects some of the benefits provided by those previous investments. And since this capital program began in January 1974, we have attained compounded growth rates of 15.2% in sales; 11.8% in net income; and 43.6% in dividends declared per common share. During the same period, return on shareholders' equity has risen to 15.7% from 13.4%.

Good strategic plans, conceived and implemented by capable people, are the foundation which enables us to effectively manage our total financial, capital, timber and human resources. We manage so as to optimize the company's long-term value to our shareholders and to society. In doing this, we have substantially improved and expanded our paper and building materials businesses, strengthened our financial position, developed a management team that combines experience with youth and depth, and enhanced our ability to function effectively in today's complex business environment. In the near future, we expect to begin realizing major benefits from our current five-year (1979-83) capital program, through which we intend to invest $2.3 billion.

It is through this kind of management that we intend, over time, to become one of the top return-on-equity performers in the industry.

In the succeeding pages of this report, we would like to introduce you to a handful of the many managers and supervisors who are responsible for Boise Cascade's future direction. The comments of these managers offer insight into our various businesses and, taken together, convey our collective confidence about the company's ability and determination to grow, to become more profitable and to increase our value to our shareholders and to society.

Jon H. Miller
President
Chief Operating Officer

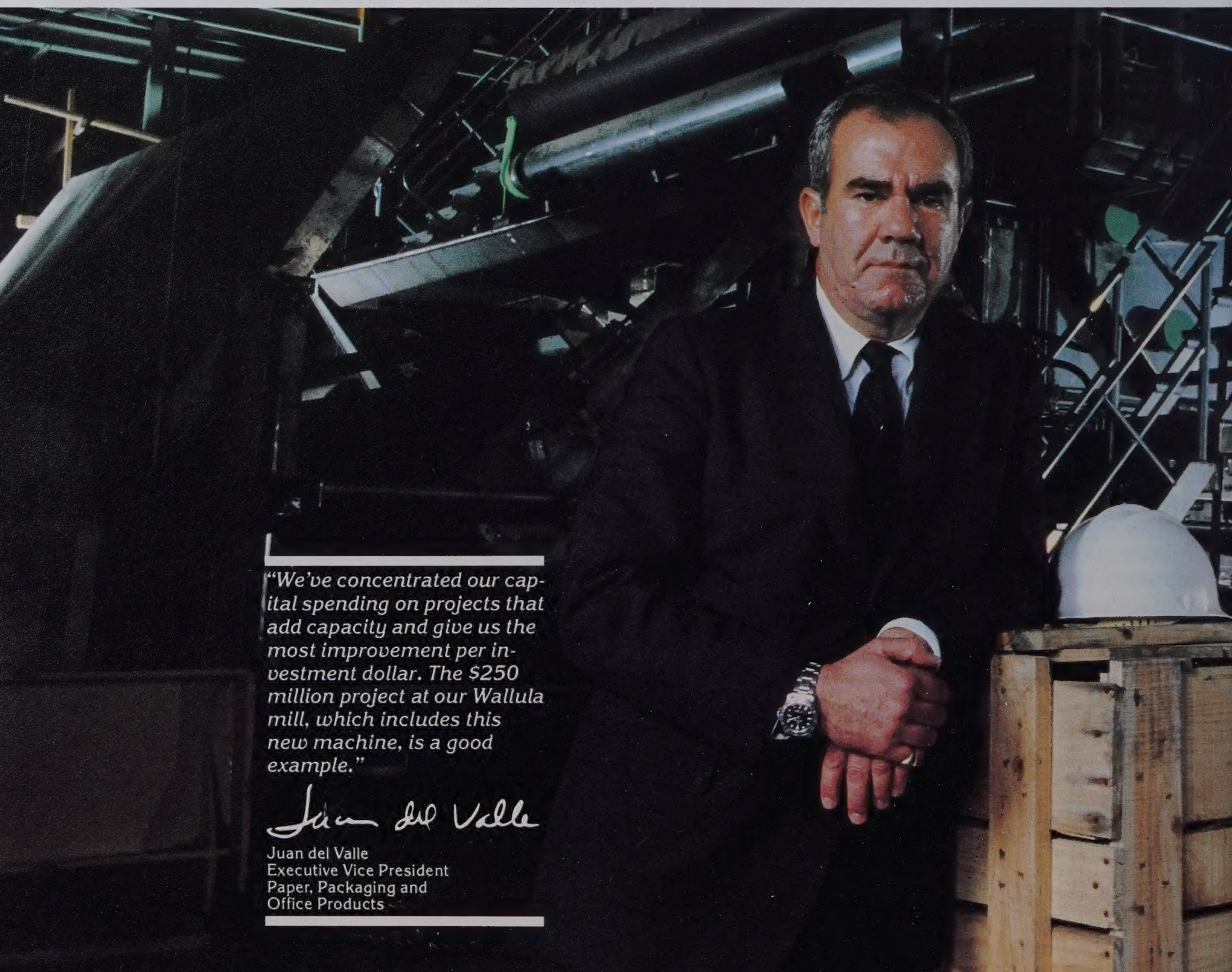
Paper and related businesses

Gordon Anglin (right), finishing superintendent, Paper

Paper. Boise Cascade's Paper Group had an excellent year in 1979, posting new highs in sales and earnings. Operating income for the year was $143 million, compared with $91 million earned in 1978. Sales were $888 million in 1979 and $695 million in 1978.

Strong demand for our products — printing and publishing papers, newsprint, packaging papers and paperboard, specialty paperboard and market pulp — enabled us to run at or near full capacity and to offset rising costs with improved prices. Increased productive capacity resulting from prior capital spending helped us respond to the high level of market demand.

As good as the Paper Group's performance was, however, it would have been even more impressive if strikes at several of our facilities early in the year had not caused the loss of about 108,000 tons of pulp and paper production. Despite pressure to conclude



"We've concentrated our capital spending on projects that add capacity and give us the most improvement per investment dollar. The $250 million project at our Wallula mill, which includes this new machine, is a good example."

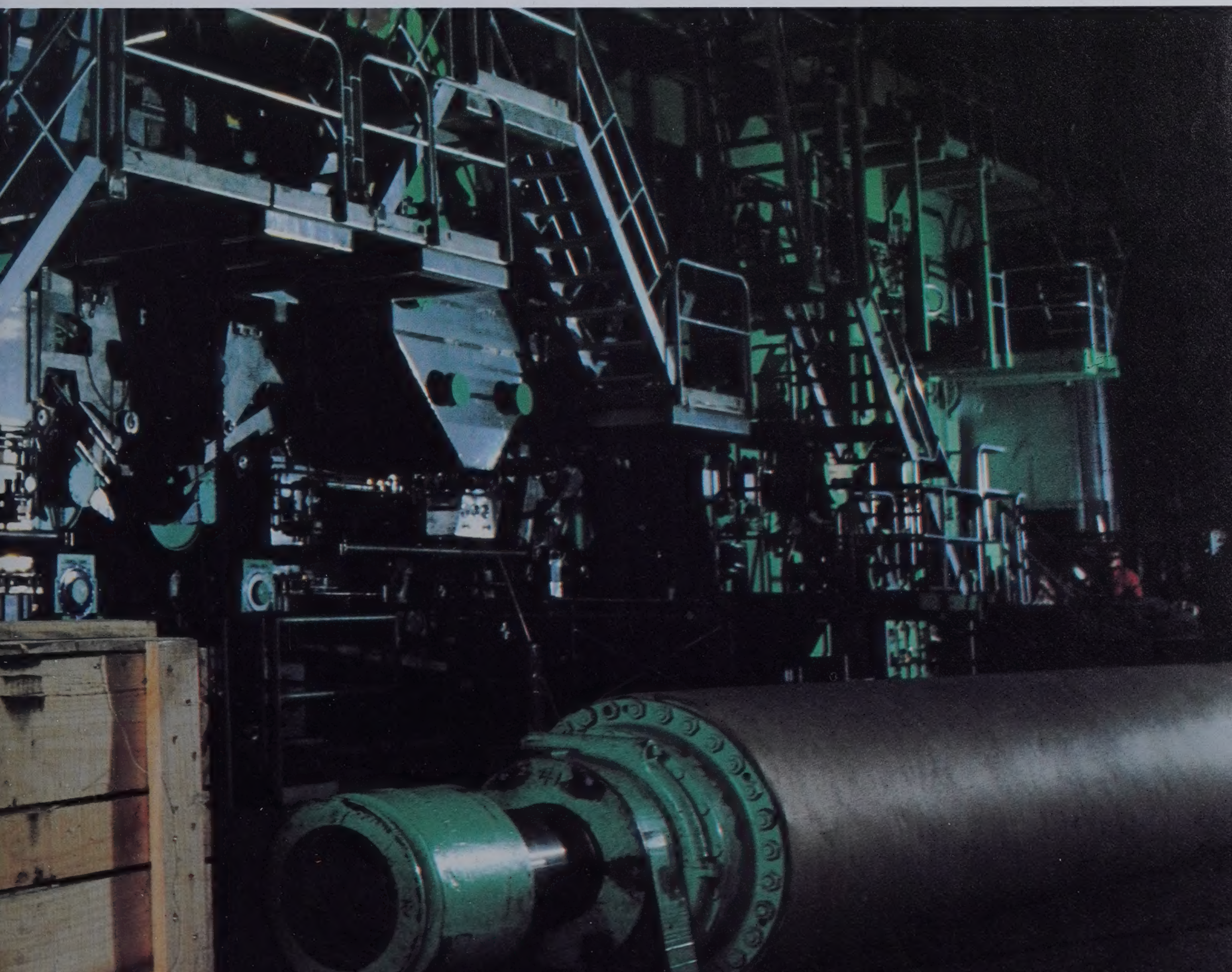
Juan del Valle

Juan del Valle
Executive Vice President
Paper, Packaging and
Office Products

negotiations quickly, thereby avoiding the costly strike that damaged the company's income in both 1978 and 1979, management opposed any demands which would have preempted its management rights and undermined Boise Cascade's long-term competitive position. Continued operation of some of the struck mills by salaried employees allowed us to continue serving our customers and thus preserve the jobs of striking employees.

In 1979, work continued on three major capital projects still in progress (see below) which will represent an investment in excess of $500 million for Boise Cascade and $136 million for our joint venture, Boise Southern. Several smaller capital projects were completed during the year, including a $41 million effort aimed at improving the operating performance of our market pulp mill at Newcastle, New Brunswick, Canada; the rebuild of a paper machine

Linda Miller (top), quality control supervisor, Paper



Paper and related businesses

Karen Dickinson, engineering assistant, Paper

at our pulp and paper mill at Fort Frances, Ontario, Canada; and the speed-up of a paper machine at our pulp and paper mill at Kenora, Ontario, Canada.

For 1980, the prospects for our paper business are good. Customers' inventories are reportedly in balance, and our order file indicates strong demand for our products. Even though we will have additional pulp and paper tonnage available when several major capital projects are completed this spring, we are budgeted to operate at or near full capacity during the year.

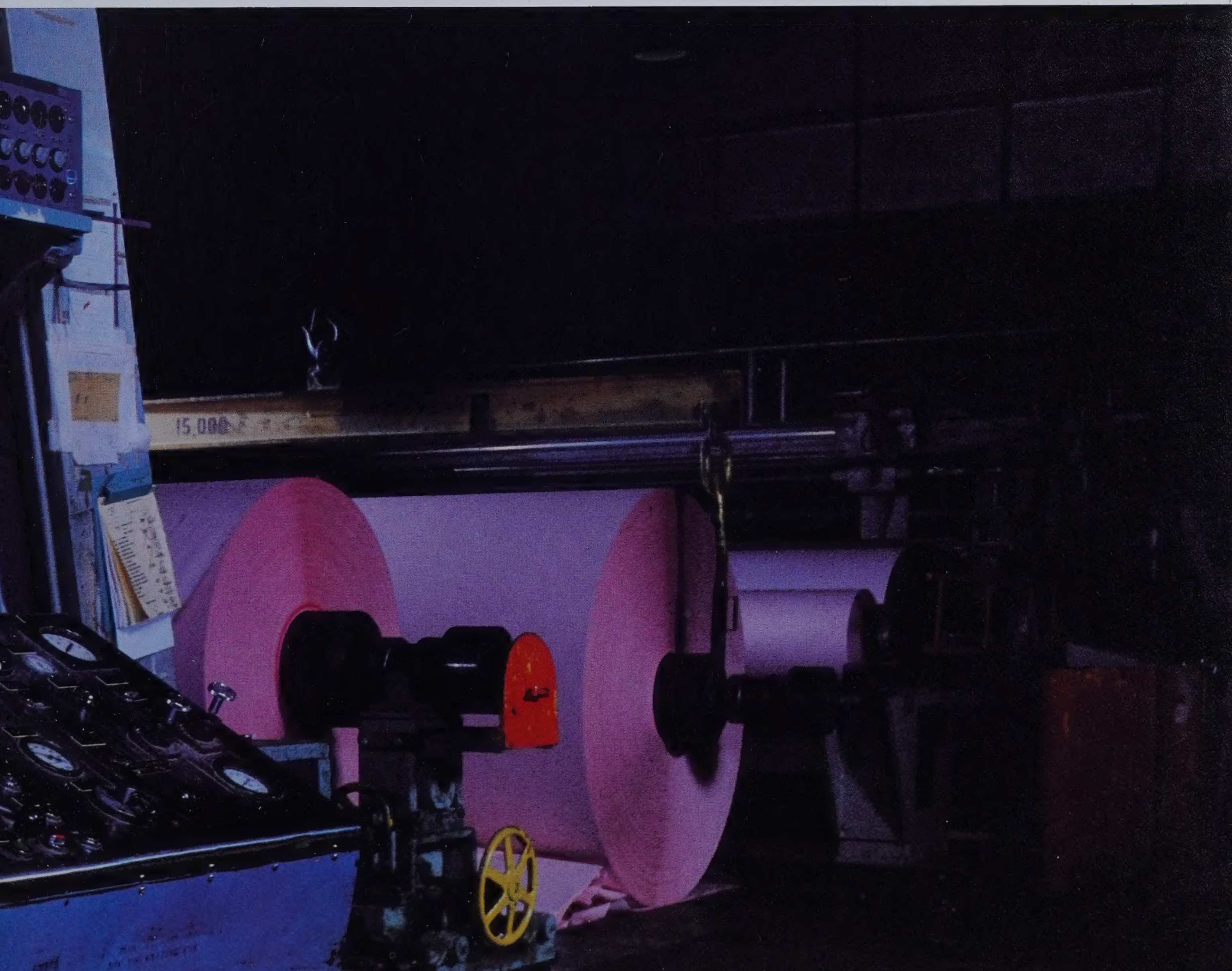
Our strategic planning for 1980, however, recognizes that several factors could have a dulling effect on our paper business. One such factor is an unstable domestic and overseas economic situation which could deteriorate further than expected. And costs — especially for energy — could escalate more than anticipated.

Under such circumstances, it would be difficult to achieve our budgeted performance without offsetting increases in selling prices. In addition, labor negotiations are scheduled for 1980 at our three pulp and paper mills in Canada, our mill in Rumford, Maine, and our joint venture pulp and paper mill in De Ridder, Louisiana.

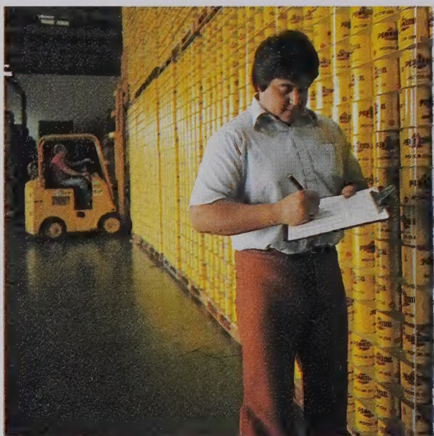
While we feel positive about the short term, the longer term prospects for our paper business are especially exciting, and we are acting now so we'll be in a position to take advantage of all the future has to offer. An estimated $1.3 billion of the company's current five-year, $2.3 billion capital program will be spent to enable our papermaking operations to expand in the fastest growing product segments and geographic areas, to lessen our dependence on purchased energy and to improve productivity.

By mid-year, the first phase of an approximately $250 million

Al Plum, shift foreman, Paper



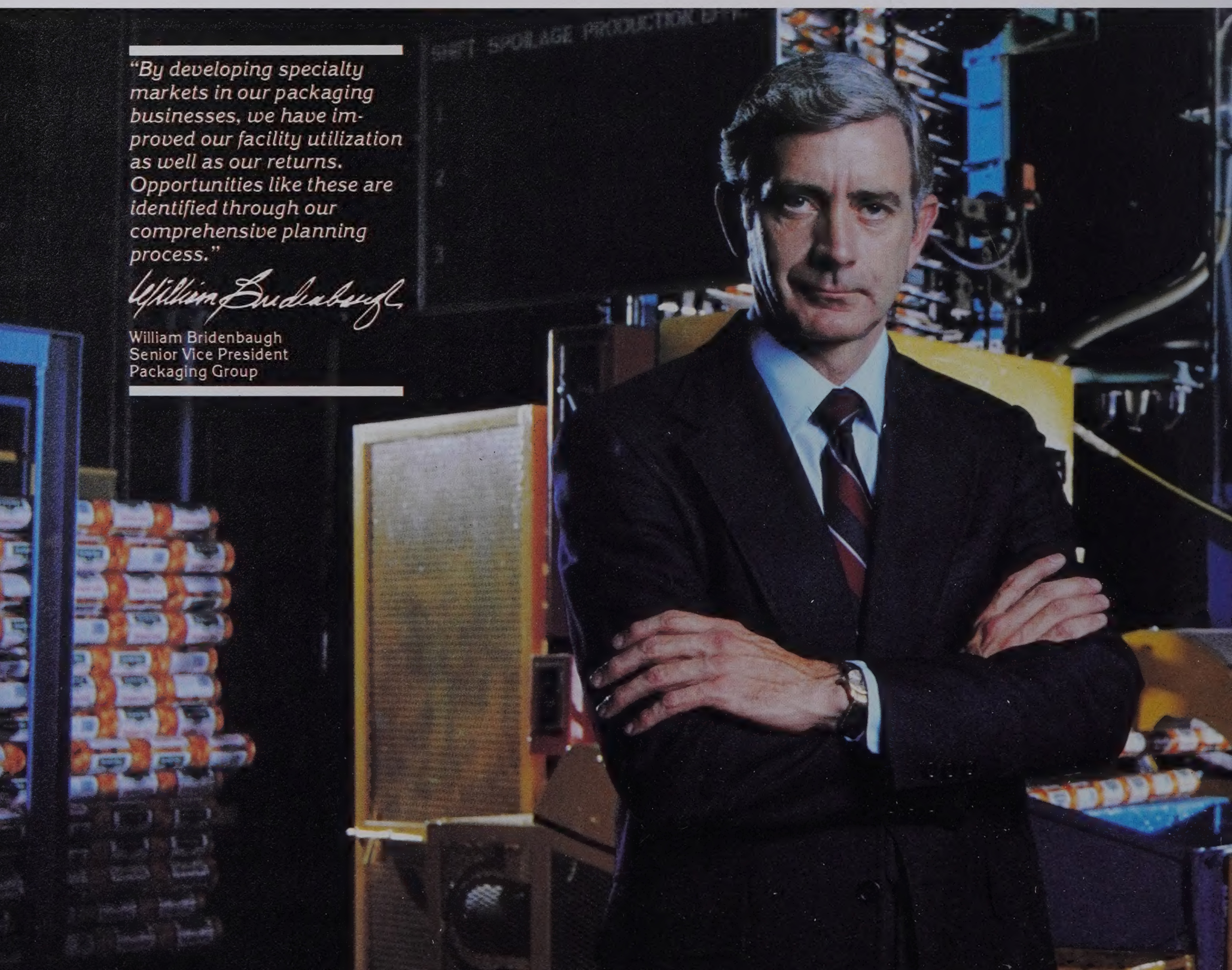
Paper and related businesses



Tony Roa, shipping and receiving supervisor, Composite Can

project will be completed at our pulp and paper mill at Wallula, Washington. In this phase, linerboard production is being converted to production of printing and publishing papers and market pulp. In the final phase, to be completed early next year, expanded production of these products will be gained by adding a new pulp mill digester. Another example of our strategic concentration on fast-growth white paper markets is an expansion in excess of $250 million now under way at our Rumford, Maine, pulp and paper mill. Through this project, which is scheduled for completion in 1981, the Rumford facility's capacity will expand substantially, enabling us to capitalize on the burgeoning market for lightweight coated publishing paper.

While emphasizing growth in the high performance white papers area, our strategic planning is also directed toward building greater

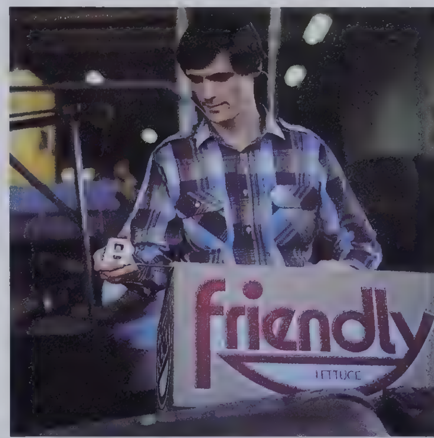


"By developing specialty markets in our packaging businesses, we have improved our facility utilization as well as our returns. Opportunities like these are identified through our comprehensive planning process."

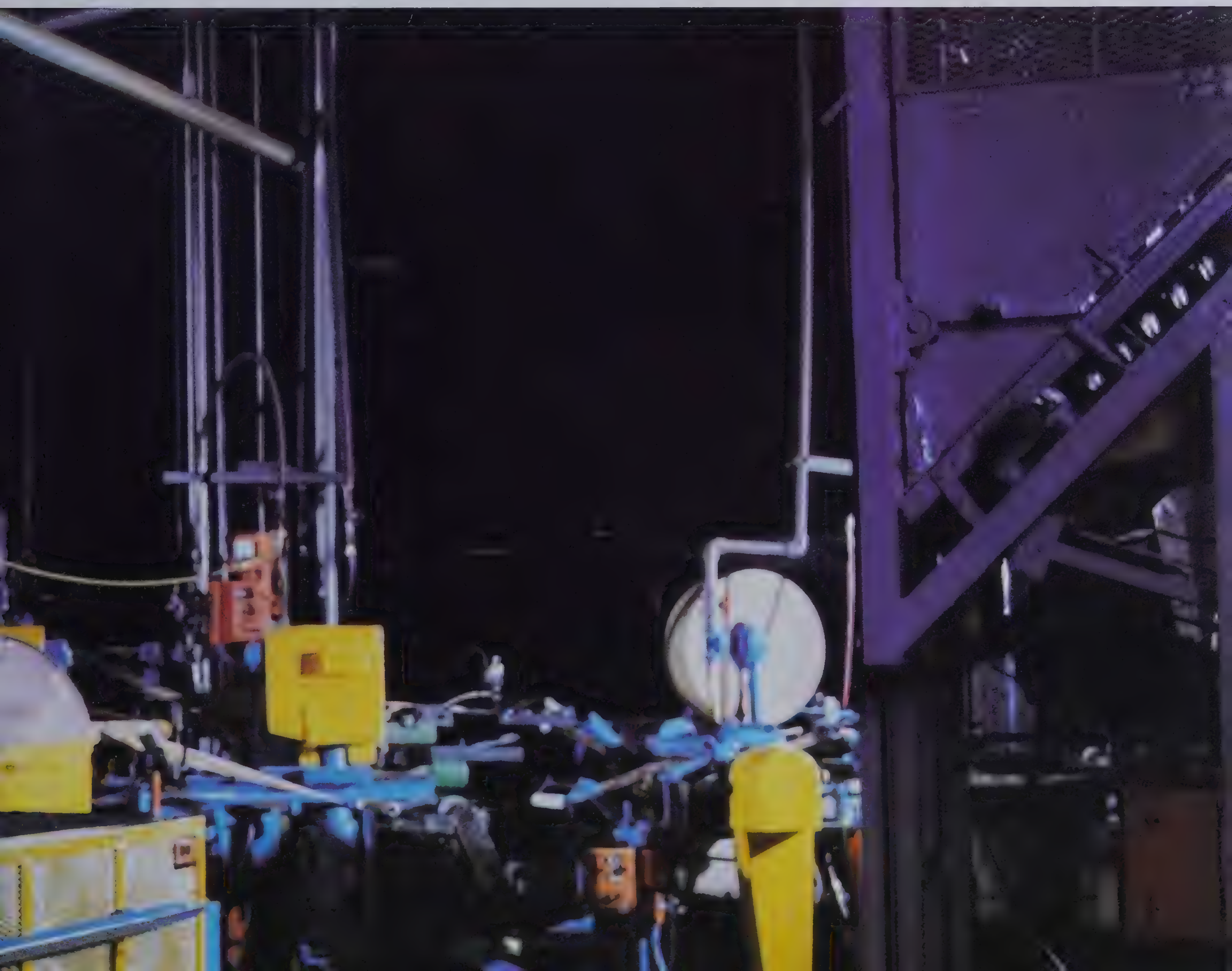
William Bridenbaugh
Senior Vice President
Packaging Group

depth into our paper products line. For example, we are developing a potential product to better serve the attractive markets for high-speed reprographic papers. Through a combination of both large and small paper machines, we are able to efficiently and economically offer products and services that meet a wide variety of customer needs. And the $136 million newsprint expansion at Boise Southern's pulp and paper mill in De Ridder, Louisiana (described under "Joint Ventures" in this section), is an example of matching our production capabilities with attractive markets.

Longer term prospects for our paper business are also enhanced by current marketing capabilities and plans to capitalize on the advantageous geographic locations of our manufacturing facilities. With mills in marketing proximity to all major domestic paper markets, we can serve customers anywhere in the country. At the



Peter Pratt, production assistant, Corrugated Container



Vince Condino (left), quality assurance supervisor, Composite Can

Frank Macek (left), warehouse supervisor, Office Products

same time, we are developing the potential to serve growing international pulp and paper markets from deep water ports within our domestic manufacturing base.

Advanced forest management techniques applied to Boise Cascade's extensive timberlands have increased our wood fiber self-sufficiency through timber productivity gains (see the "Timber Resources" section of this report). This has helped control the cost of wood delivered to our mills.

In terms of our human resources, we are attempting to improve the productivity of our work force and to further develop managers within the company. Illustrative of our efforts is a comprehensive training program in which all pulp and paper mill supervisors are improving their skills in dealing with employee relations issues and in communicating with employees.

Packaging and Office Products. Boise Cascade's packaging and office products business also enjoyed its finest year ever in 1979. Operating income was $52 million, compared with $36 million in 1978. Sales rose to $764 million in 1979 from $656 million in 1978.

The Office Products Division continued its winning performance in 1979, breaking sales and earnings records which had been established just one year earlier. The distribution of supplies to the office is an exceedingly attractive business, and we are a leader in the field. Still, with a small percentage of the total market, we have ample opportunities for future growth. That is why we are expanding into new geographic areas while increasing our service to existing markets. And to improve efficiency, we are in the process of extending the division's on-line data processing system to our distribution centers across the U.S. As for 1980, although we anticipate a recession in the economy, the division expects to have another good year.

A leader in its industry, our Composite Can Division finished the year on budget and performed well, although especially stiff competition eroded profit margins. Inasmuch as prices could not keep pace with rising costs, earnings declined slightly from 1978, despite an increase in sales. During the year, we opened a composite can plant in Yakima, Washington, and announced construction of a new $2.7 million facility at New Brunswick, New Jersey, and a $3.5 million expansion of our Presidents Island, Tennessee, plant. We also began marketing a new product — a large (30#) composite can for institutional foods — which was created by our research and development team. Innovative research and development plus intensive marketing should enable the division to capitalize on the many opportunities we perceive for the composite can industry in the years ahead.

Our Corrugated Container Division, having fought through several years of sagging profitability along with the industry as a

whole, recovered nicely in 1979. Both earnings and sales were up substantially from 1978 levels. The division's improved earnings and profit margins were due to improved efficiency, which helped to offset rising costs, and to heavy demand for its products, which made possible badly needed price increases. Since the industry's fortunes tend to follow general economic conditions, the Corrugated Container Division's results in 1980 are unlikely to match the previous year's, but the longer term outlook is favorable.

The Envelope Division has made a successful transition from the manufacture of commodity envelopes to a product mix emphasizing growth in specialty envelopes and, in the process, has increased both its sales and earnings during each of the past four consecutive years. This division had record earnings in 1979, dramatically surpassing its previous high earnings mark. In the years to come, the Envelope Division will continue to focus on specialty markets and on productivity improvements to help ensure future success.

Joint Ventures. Combined results of Boise Cascade's two joint ventures improved considerably in 1979 over the previous year. Our share of joint venture income was $19.7 million in 1979, compared with $16.5 million in 1978. Total revenues were $240 million in 1979 and $217 million in 1978.

Boise Southern Company, a joint venture with Southern Natural Resources, Inc., earned $34.4 million in 1979, versus $28.7 million in 1978. Boise Cascade's share in 1979 was $17.2 million, compared with $14.4 million in 1978. Market conditions for newsprint and paperboard enabled Boise Southern's two pulp and paper mills to operate at full capacity in 1979. The declining housing market caused the results of the wood products operations to decline. Housing is expected to remain slow in 1980. Continued heavy demand for paper should permit the mills to run at full tilt, despite the start-up of the $136 million project which will expand newsprint capacity by more than 185,000 tons annually.

Oil, gas and mineral income accounted for approximately 19% of Boise Southern's earnings in 1979. Mineral exploration is continuing on and near Boise Southern's lands in Louisiana and east Texas as well as on other properties of Boise Cascade.

Boise Cascade's share of the earnings of its other joint venture, Duropack, was $2.4 million in 1979, compared with $2.1 million in 1978. Duropack, an Austrian firm, operates two facilities that manufacture corrugated containers. With strong markets and a favorable product mix, this operation continues to be a solid and consistent performer.

Eileen Nowak, print shop supervisor, Envelope

Grover Lee (left), warehouse supervisor, Office Products

Building Materials and related businesses

John Kite, log yard supervisor, Timber and Wood Products

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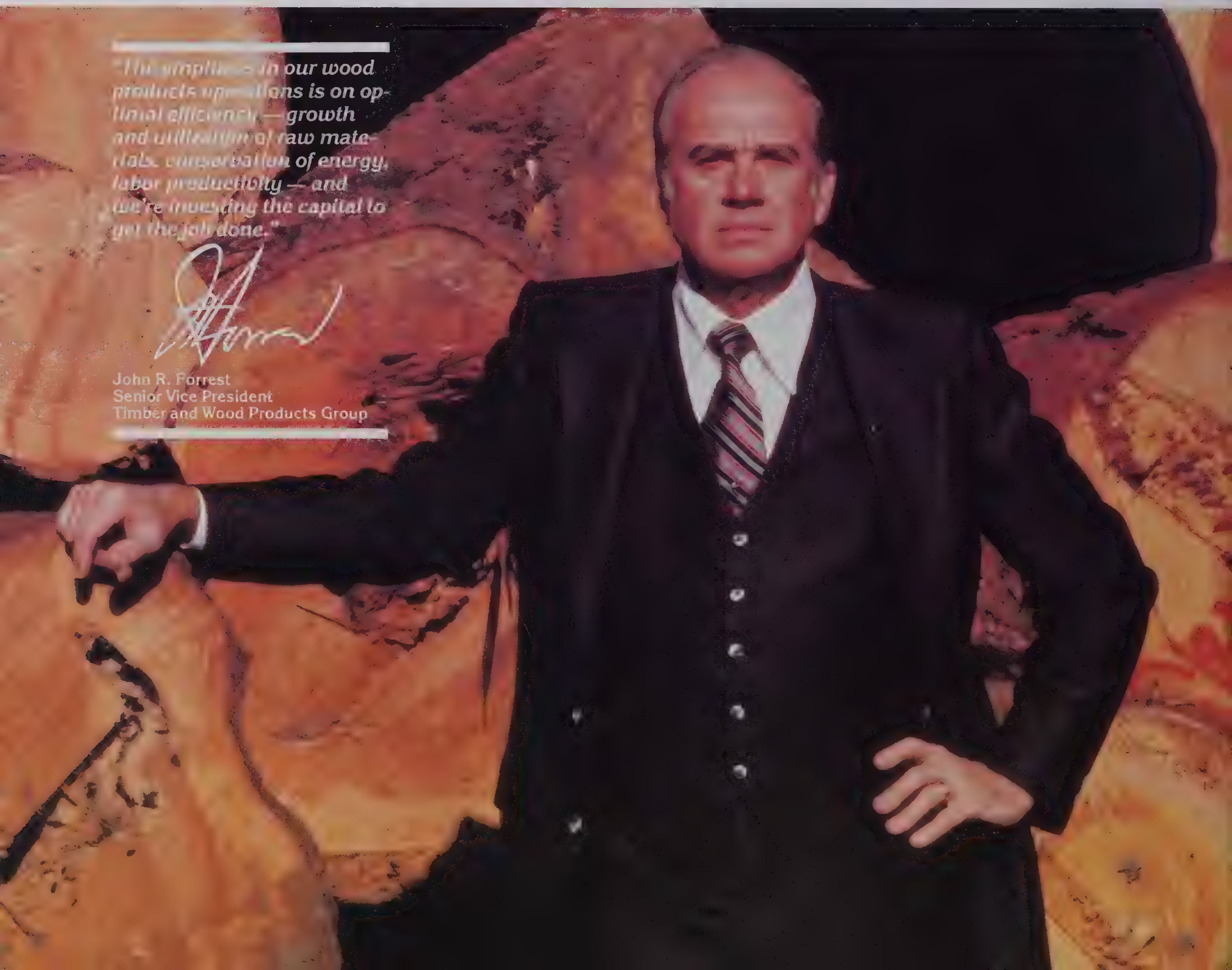
Wood Products. The performance of our Timber and Wood Products Group in 1979 declined from the record results achieved in the previous year. Operating income in 1979 was $61 million, compared with $101 million in 1978. Sales totaled $697 million in 1979, versus $699 million in 1978.

Homebuilding continued at a moderately high level through the first three quarters of 1979 before dropping off sharply later in the year. The market drop followed action by the Federal Reserve Board to tighten credit by boosting interest rates.

The resultant slowdown in new home construction depressed the markets for such products as lumber and plywood, prompting many firms, including Boise Cascade, to temporarily curtail production at some facilities during the year-end holidays. Despite the progress which has been made to improve the efficiency of our



> *"The emphasis in our wood products operations is on optimal efficiency — growth and utilization of raw materials, conservation of energy, labor productivity — and we're investing the capital to get the job done."*

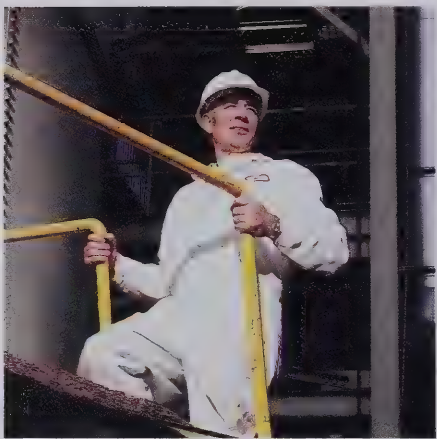
John R. Forrest
Senior Vice President
Timber and Wood Products Group

wood products manufacturing plants, profit margins were weakened during the year because costs — especially for energy and raw materials — rose faster than prices for wood products. In fact, some prices actually declined.

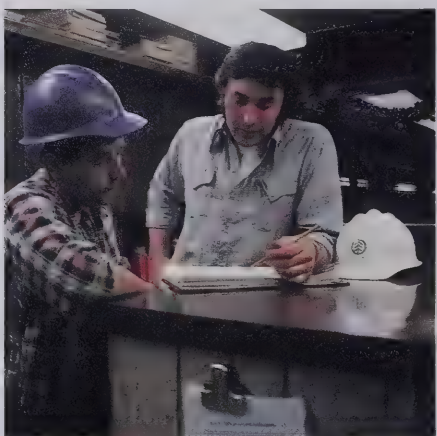
For 1980, the anticipated decline of housing starts to approximately 1.4 million units (down from 1.7 million in 1979) would adversely impact demand and price levels during the year. Increases in the costs of energy, raw materials and labor will further squeeze profit margins. Additionally, labor contract negotiations are scheduled during the year at many Pacific Northwest wood products plants.

The slack housing market that is expected to last at least through mid-1980 is the result of the tight supply and high cost of money, along with consumer concern about the economy. It does not


Dave Anderson, dry end foreman, Timber and Wood Products



Rex Hanby, dry end foreman, Timber and Wood Products



Larry Jenkins (right), green end supervisor, Timber and Wood Products

reflect an erosion of the robust underlying demand for housing, which should remain strong during most of the decade as the post-war babies reach home-buying age.

Over the longer term, demographics indicate an eventual slowdown in new home construction. Consequently, our management plans to emphasize improved profitability in wood products manufacturing primarily through increased efficiency. We will be expanding capacity only on a selective basis.

Several capital projects which have enhanced our production efficiency were completed in 1979. Among these were expansion and modernization of our plywood and lumber operations at Kettle Falls, Washington, and installation of an efficient log processing center serving our sawmill and veneer plant at White City, Oregon. And consistent with our ongoing practice of eliminating marginal operations, we closed a sawmill near Boise, Idaho, during the year and sold a hardboard plant at Phillips, Wisconsin.

Capital projects currently under way at facilities in several wood products manufacturing regions are designed to conserve energy, increase the value realized from raw materials or provide other cost-saving benefits.

In the South, we are growing in wood products manufacturing through construction of a plywood, hardwood lumber and wood chip production complex near Chester, South Carolina. This modern facility, to be completed in 1981, will help us most effectively manage and utilize our expanding Southeastern timber base.

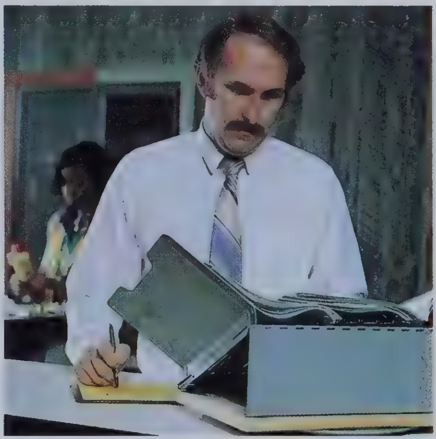
As our planning and capital programs move Boise Cascade more deeply into the paper business, we will retain a favorable wood products integration and diversification. This will be accomplished primarily by fine-tuning our wood products manufacturing operations as well as by selectively adding capacity when expansion is appropriate in terms of long-term opportunities.

Building Materials. The Building Materials Group felt the effects of the decline in homebuilding activity in 1979, as operating income fell to $23 million from $41 million in 1978. Sales were $794 million in 1979 and $750 million the previous year, with the increase due primarily to the addition of a number of new building materials centers in 1979.

The Building Materials Distribution Division is a growth business for Boise Cascade, and a good share of the company's planned capital spending will be directed to this business due to its promising near- and long-term prospects.

The 1980's are expected to be the strongest decade in history for housing starts. Likewise, the repair and remodeling portion of the housing industry is mushrooming. Our strategic plans call for continued growth in our building materials centers, which serve both of these market segments, backed up by selective growth in our wholesale distribution units.

This expansion is oriented to rapidly growing markets in numerous states throughout the western two-thirds of the country. These attractive markets are also in geographic proximity to our primary wood products manufacturing facilities, so our mills serve



David Batty, retail store supervisor, Building Materials Distribution

George LeDelle (right), shipping superintendent, Building Materials Distribution

Building Materials and related businesses

Gerald Thomas, yard superintendent, Building Materials Distribution

as an important source of supply for our distribution operations.

In 1979, the division purchased 60 building materials centers from Lone Star Industries for approximately $50 million. These facilities serve retail customers and contractors in Texas, Oklahoma and Kansas. Five building materials centers catering primarily to contractors in Washington and Oregon were purchased from Edwards Industries. In addition to the purchase of these and other facilities, the division also spent $17.2 million to build new facilities and to expand or relocate existing ones during the year. The division also disposed of several centers (including 15 acquired from Lone Star) which were not expected to meet our performance criteria.

The performance of our Housing Division in 1979 was mixed. Despite a softening housing market, our operation which supplies

sectionalized houses to the western part of the nation posted its best year ever. Our operation which supplies the eastern part of the country with panelized houses continued to experience difficulties with regional market demand for housing. This operation closed a panelized housing plant in Muncy, Pennsylvania, during the year. Although recent improvements in product line and market approach should strengthen the performance of our eastern operations, with housing starts expected to be slack through most of 1980, our Housing Division can expect to wait a while longer before improving its overall results significantly.

The Cabinet Division improved market share during the year, but rising costs and a change in product mix resulted in lower earnings in 1979 than in the previous year. The division will continue working in 1980 to improve operating efficiency.

Sue Coulter, merchandise supervisor, Building Materials Distribution

"We're expanding our building materials distribution business because we see a big opportunity in serving the growing home repair and remodeling market as well as a strong decade for new housing in the 80's."

George E. McCown
Senior Vice President
Building Materials Group

Timber Resources

Luci Wisniewski, forester, Timber and Wood Products

The foundation of Boise Cascade's integrated forest products operations is one of the most extensive timber bases in the industry. And the strength of this resource base is being expanded through management strategies devoted to growth both in number of acres and in productivity of the land.

At year-end, Boise Cascade, including its joint venture, Boise Southern, owned 2.7 million acres of timberland and held long-term leases, contracts or licenses on 4.3 million acres in the U.S. and Canada. We are in the process of establishing a new timber base in the Carolinas that will eventually support a major wood products and pulp and paper complex.

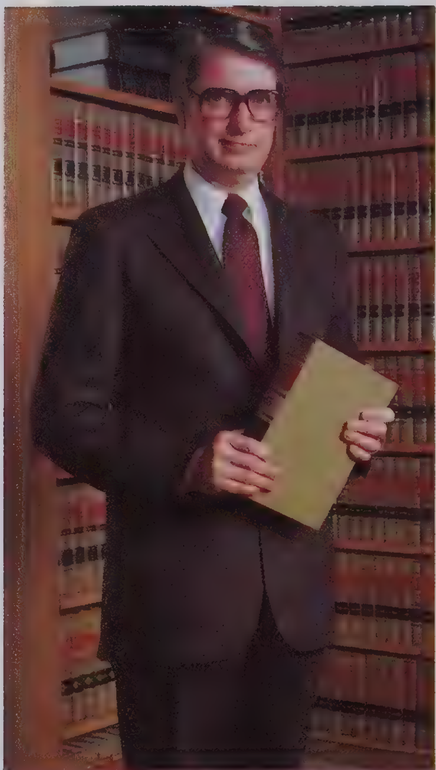
In addition to growing in total acreage, our timber base has become even more productive through the application of intensive forest management techniques. Our silvicultural programs balance

long-term projects, such as the development of genetically superior trees, with techniques which have more immediate returns, such as fertilization and thinning of timber stands. Through computer technology, improved techniques for inventorying timber reserves, more complete utilization of available wood fiber and our ongoing silvicultural program, we are increasing our self-sufficiency in meeting our raw materials requirements.

At present, over half of the solid wood needs of our manufacturing operations can be supplied from the company's timber base — a comparatively strong degree of self-sufficiency within the industry. Yields from our timberlands in the Northwest have been increased by more than 25% since the mid-1970's, while yields from the lands of Boise Southern, our joint venture in Louisiana, are expected to double by the year 2000.

Joe Madden, log yard superintendent, Timber and Wood Products

Staff Services



John E. Clute, Senior Vice President and General Counsel

Frank J. Toner, Vice President, Human Resources; Alice E. Hennessey, Vice President and Corporate Secretary

A major effort is made by Boise Cascade to anticipate changes in the social, economic and political environments in which we operate and to be prepared to act accordingly. Support from our staff service units is key to our success in this area. We also study issues facing the company through our business planning process.

Behind the planning, the development and implementation of strategies described in this report is one particular asset most crucial to solid business performance — our people. Not only must we attract and keep productive people, we must also create an environment that encourages and rewards effectiveness at all levels. We place a great deal of emphasis on seeing that our employees acquire the knowledge, experience and skills necessary to make them productive — not only for the company's benefit but also to help them realize their full career potential.

An integral part of these efforts is our affirmative action programs. These programs are reaching into the rich resource of talent and ability among women, the handicapped and minorities — a resource which will result in a competitive talent advantage for this company now and in the future.

Employees at many levels of the company are involved in work that requires them to understand and comply with the growing body of law and government regulations affecting the operations of business in general. So we emphasize a continuing educational program to keep this large group of employees abreast of changes in those laws and regulations.

In the face of increasing government regulation of business, Boise Cascade has for some time sought to constructively influence the governmental process. Many managers in the company have attended seminars on government, and it's our goal to make interfacing with government a part of every manager's work responsibility. In addition, we encourage our employees at all levels to become involved in their communities and in the governmental and public decision-making processes.

Attaining our overall goal of optimizing the company's long-term value to our shareholders and to society requires the support of many people. We are dedicated to earning this support by being responsive and responsible to our various audiences, which include investors, customers, government, the public and, most especially, our employees. So we emphasize good communications. And we provide timely and comprehensive investment information. We also have an active contributions program designed to give corporate support to areas which mutually benefit the company and society and to enhance the living environment in the communities in which we operate.

Other staff services include: support in the area of transportation by ensuring cost-effective transportation systems; coordination of the company's overall energy goal; advice and assistance in purchasing; and a financial control system which supports all the company's operations with professional service in data processing, tax, internal audit, real estate and risk management.

Statistical Information

Contents

Sales Volumes

Paper	1979	1978	1977	1976	1975	1974
Boise Cascade			(thousands of tons)			
Printing and publishing papers	**1,129**	1,004	1,075	853	572	696
Newsprint	**379**	329	379	328	332	389
Packaging papers and paperboard	**205**	145	264	266	239	232
Specialty paperboard	**77**	78	74	28	16	19
Market pulp	**176**	174	69	52	60	70
Total	**1,966**	1,730	1,861	1,527	1,219	1,406
Joint Venture						
Packaging papers and paperboard	**459**	456	430	424	361	306
Newsprint	**83**	84	84	82	84	62
Printing and publishing papers	**—**	—	18	17	16	—
Market pulp	**—**	—	161	168	151	225
Total	**542**	540	693	691	612	593

Packaging and Office Products

Boise Cascade			(millions)			
Corrugated containers (square feet)	**6,075**	5,577	5,232	5,011	4,187	4,482
Composite cans	**3,530**	3,500	3,233	3,208	3,250	3,140
Envelopes	**5,611**	5,228	5,126	5,109	5,487	6,575
Joint Venture						
Corrugated containers (square feet)	**956**	895	992	1,089	962	1,202

Wood Products

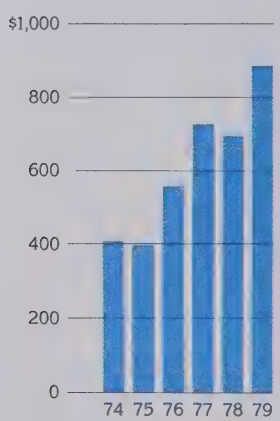
Boise Cascade			(millions)			
Plywood (square feet)	**1,387**	1,528	1,538	1,542	1,391	1,476
Lumber (board feet)	**796**	799	825	809	603	614
Fiberboard (square feet)	**427**	484	578	506	462	475
Particleboard (square feet)	**142**	149	145	149	123	126
Joint Venture						
Plywood and veneer (square feet)	**99**	126	144	136	41	68
Lumber (board feet)	**7**	53	60	103	40	20

Building Materials

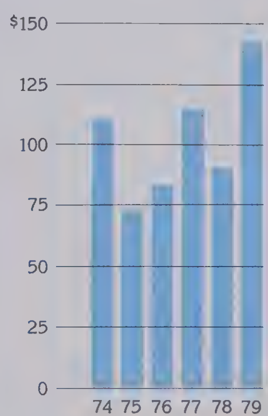
Living units	**8,199**	9,822	9,769	8,584	7,147	8,512
Cabinets (thousands of cabinets)	**942**	831	789	618	457	502

Paper

Sales (millions)

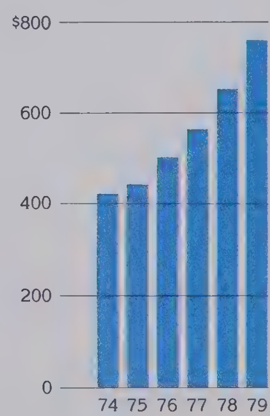


Operating Income (millions)

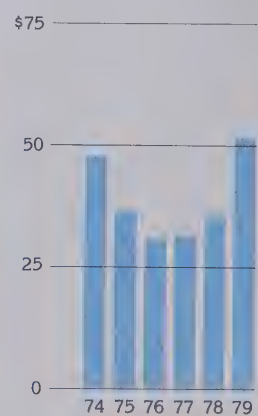


Packaging and Office Products

Sales (millions)



Operating Income (millions)



Facilities

Paper

10 Pulp and/or paper mills located in Maine, Minnesota, Oregon, Washington and Ontario and New Brunswick, Canada.
5 Specialty paperboard mills located in Massachusetts, New York and Vermont. The company has a specialty paperboard converting facility in New York.

Joint Venture
2 Paper mills located in Louisiana.

Packaging and Office Products

18 Corrugated container plants located in Arkansas, California, Colorado, Connecticut, Idaho, Indiana, Minnesota, North Carolina, Ohio, Oregon, Tennessee, Utah, Washington and West Germany.
25 Composite can plants located in California, Florida, Georgia, Illinois, Indiana, Kansas, Missouri, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Washington and France. Another facility in Tennessee produces metal ends used in the manufacture of cans.
5 Envelope plants located in Illinois, New York, Ohio and Pennsylvania.
30 Office supply, equipment and furniture distribution centers located in Arizona (2), California (2), Colorado, Florida (3), Georgia, Hawaii (4), Illinois, Massachusetts, Michigan, Minnesota, New Jersey (2), New York, North Carolina, Ohio (2), Oregon, Tennessee, Texas (2), Utah, Washington and Wisconsin. **8 Retail outlets** located in Hawaii (5), Massachusetts (2) and Texas.

Joint Venture
2 Corrugated container plants located in Austria.

Wood Products

18 Sawmills located in Idaho, Minnesota, North Carolina, Oregon, Washington and Ontario, Canada.
16 Plywood and veneer plants located in Idaho, North Carolina, Oregon and Washington.
Particleboard plant located in Oregon.
Fiberboard plant located in Minnesota.
Wood beam plant and bark plant located in Idaho.
Pole and piling plant located in Oregon.

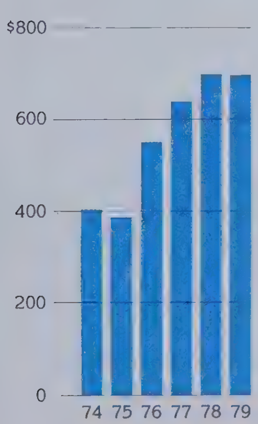
Joint Venture
Sawmill and plywood and veneer plant located in Louisiana.

Building Materials

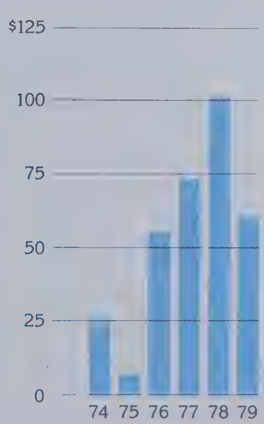
15 Wholesale building materials units located in Arizona, California, Colorado (2), Idaho (3), Montana, Oregon, Texas (2), Utah and Washington (3).
107 Building materials centers located in Arkansas (2), California (15), Colorado (16), Idaho (8), Kansas (5), Oklahoma (9), Oregon (4), Texas (37), Utah (5) and Washington (6).
9 Housing plants located in Alabama, Colorado, Idaho, Iowa, Montana, Oklahoma, Utah and Virginia.
3 Cabinet plants located in Virginia and West Virginia.

Wood Products

Sales (millions)

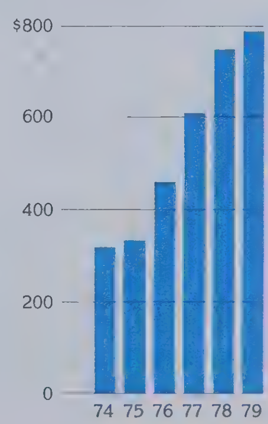


Operating Income (millions)

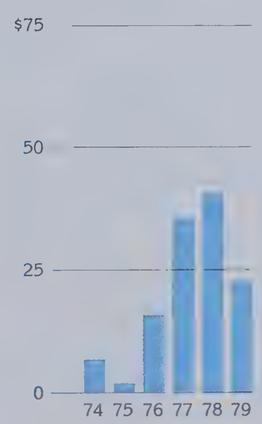


Building Materials

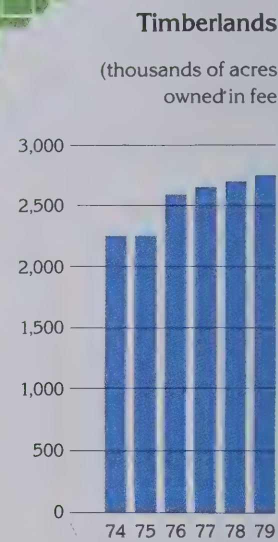
Sales (millions)



Operating Income (millions)



North American Timber Resources



Sources of Fiber by Area for Boise Cascade and Joint Venture

The Company's and Boise Southern's owned and controlled timber resources are currently capable of providing, on a sustained timber yield basis, 55% of the total solid wood (sawtimber and pulpwood) requirements of our facilities. Considering the total fiber requirements of our paper and wood products manufacturing facilities, the owned and controlled timber resources are currently capable of providing, on a sustained timber yield basis, 43% of the total fiber needs. This percentage is based upon all log and wood waste fiber requirements and excludes the residuals allocable to purchased logs processed through the Company's wood products mills.

The following table describes, for each operating area, the acreages and percentages of the solid wood and total fiber requirements represented by the current sustainable harvest of the respective timber resources at December 31, 1979.

Area	Fee	Leases and Contracts	Canadian Government Licenses	Total	Solid Wood Requirements Available from Timber Resources	Total Fiber Requirements Available from Timber Resources
			(thousands of acres)		(percent)	(percent)
1. Pacific Coast	285	—	—	285	88%	32%
2. Intermountain	1,149	60	—	1,209	30%	
3. Midwest-Central Canada	327	—	2,870	3,197	55%	55%
4. New England	369	—	—	369	27%	27%
5. Eastern Canada	24	—	936	960	73%	73%
6. South (Boise Southern, joint venture)	416	394	—	810	54%	54%
7. Southeast (1)	184	—	—	184	N/A	N/A
Total	2,754	454	3,806	7,014		

(1) The Company is in the process of establishing a new timber base in North and South Carolina. As of December 31, 1979, the Company had options to purchase an additional 17,000 acres of timberland.

Financial Review

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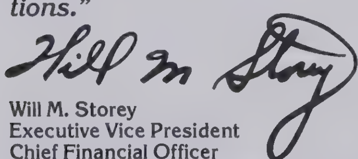
Financial Review

"We deliberately include downside prospects and contingencies in our planning process so we can feel confident that our growth plans can be completed and that we have the flexibility to respond to changing conditions."



Will M. Storey
Executive Vice President
Chief Financial Officer

Financial Condition. Boise Cascade's sales in 1979 were $2.92 billion, 13% higher than in 1978; and income was $175 million, 29% greater than in 1978 before net extraordinary items. Funds provided from operations reached a record high of $291 million, up 30% from 1978.

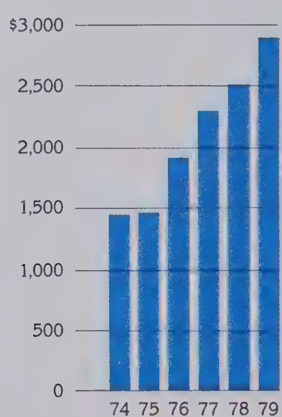
Our ability to generate a strong cash flow and our capacity for additional long-term debt provide a solid foundation for growth. Boise Cascade is well positioned financially to weather the downturn in the economy projected for 1980. We have the financial flexibility needed to react to changing economic conditions and to take advantage of opportunities as they arise. That flexibility was demonstrated in late 1979 when we moved quickly to issue $150 million of 9.90% unsecured notes, discounted to yield 10.10%, in the face of rapidly rising interest rates. The notes, which fall due in 1986, are callable at par after October 1, 1983. During the first quarter 1979, we entered into an unsecured 5-1/2-year term loan with an insurance company for $37.5 million. The interest rate is 9-5/8%, and the loan is payable in three installments beginning in 1983.

The company still has a high degree of additional financing flexibility. Our debt-to-equity ratio at the end of 1979 was .49:1, and we had $400 million in bank credit agreements available. Of this amount, $50 million is in seasonal or short-term domestic borrowing arrangements. The remaining $350 million represents four unsecured revolving credit agreements which expire at various times between 1982 and 1984. Of this amount, $285 million may be converted at expiration to term loans with two to three year maturities.

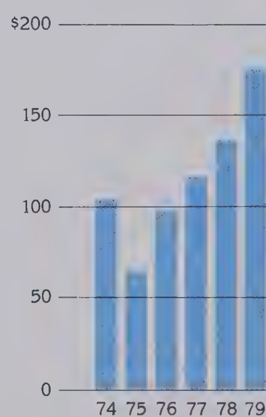
Capital Program. We spent $486 million during the first year of the company's five-year (1979-1983), $2.3 billion capital program and expect to spend a similar amount in 1980. Like the 1974-1978 program, in which we invested $1.2 billion, this capital investment program is designed to improve and expand the company and demonstrates our continuing confidence in the basic strength of the businesses in which we operate.

Funds for the 1979-1983 capital program are allocated to two major categories: $1,750 million,

Sales (millions)



Earnings* (millions)



*Before extraordinary items.

or 76%, for projects to improve and expand the company's businesses, and $550 million, or 24%, for projects necessary to keep existing facilities well-maintained, safe and environmentally sound.

The following table sets forth information concerning 1979 expenditures, including those for lease commitments and working capital associated with projects.

Return on Investment. The company's return on average shareholders' equity has increased 17% — to 15.7% in 1979 from the 13.4% reported for 1973. Another important measure of investment performance is return on total capital which was 10.8% for 1979, up 44% from the 7.5% realized in 1973. Shareholders' equity per common share increased to $44.09 during 1979, up 79% from the $24.57 at year-end 1973.

Many of the benefits of our recently completed five-year (1974-1978) capital program are just now being realized, and most of the benefits of the present capital program are yet to come. Most of our major capital projects, such as the new paper machines being built in Rumford, Maine, and Wallula, Washington, have relatively long construction periods requiring significant capital outlays well in advance of the time when the projects begin to add to the company's income. This time lag is also a characteristic of our investment in a new timber base and production facilities in North and South Carolina.

Planning. After studying our businesses and markets extensively, we feel confident that many opportunities exist for us to further increase shareholder value. Our optimism for the years ahead stems from our past performance and from our substantial business

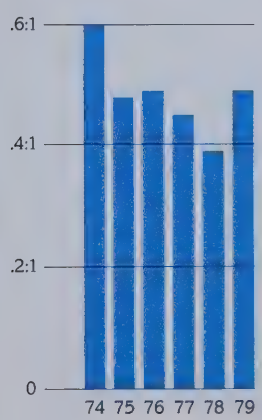
Spending by Business

	1979 (millions) Amount	1979 Percent
Paper	$284	58%
Packaging and office products	31	6
Wood products	44	9
Building materials	82	17
Timber and timberlands	38	8
Other	7	2
	$486	100%

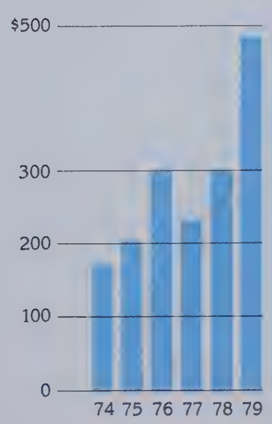
Spending by Type of Investment

	1979 (millions) Amount	1979 Percent
Expansion	$261	54%
Market maintenance (modernization and cost savings)	72	15
Fee timber and timberlands	38	8
Necessary (environmental, safety and replacement)	115	23
	$486	100%

Debt-to-Equity Ratio



Capital Program (millions)



Financial Review

planning process which aims at capitalizing on our strengths.

Our planning begins with an in-depth review of each of our businesses at the divisional level. This review is undertaken from time to time as required and forms the basis of a "strategic plan" for each business, which must be in place at all times and is altered only as fundamental changes in a business occur.

Also, an annual planning process begins in May when an economic scenario is issued which represents top management's view of what national economic conditions will be over the coming five years. Based on this forecast, each of our divisions prepares a five-year "business plan" consistent with the overall strategy of the business. This plan is submitted for review and approval with an accompanying five-year "capital budget." The divisions then prepare their five-year "income budgets" for review in November/December. The capital budget is finally approved after it is laid against a "financial plan" or downside view of the five-year income budget. During the succeeding year, progress against business plan goals is reviewed in detail by management, along with the continued validity of the strategic plans.

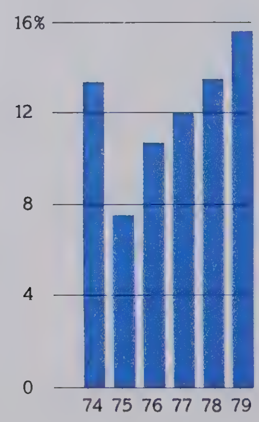
The significant point about the company's financial plan is that it is based on downward adjustments of the budgets prepared by our operating people. Since these adjustments are made for five consecutive years and factor in a variety of pessimistic events, the financial plan represents a conservative basis against which to plan our capital spending and requirements for financing. As a result, if the business environment should change materially from our forecast, we believe we will have the financial flexibility to continue with our business plan and capital program.

The criterion underlying the analysis of the alternative investment and financial strategies at all stages of the planning process is the addition of value to our shareholders' investments in Boise Cascade. We believe that shareholders want management to attempt to responsibly optimize the long-term return on their investment, consistent with a prudent level of risk.

To add value, each division must operate profitably, earning at least its cost of capital on incremental investments. This "hurdle rate" for the division's investments is determined based on the specific operating and financial characteristics of its business. Growth for its own sake is not an objective in our planning process. Nevertheless, based on our analysis and planning, we are confident that investment opportunities exist which will provide growth and add value for our shareholders.

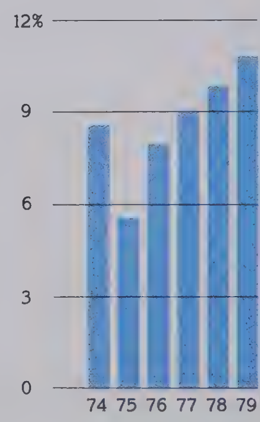
Dividends. The company increased the annualized rate of the dividend on its common stock from $1.25 to $1.50 in 1979. In February of 1980, the dividend was further increased to an annualized rate of $1.75 per share, the seventh consecutive year in which the rate has increased. Our dividend increases have also kept well ahead of the rate of inflation during that same period of time. We intend to continue to review our dividend rate annually because we believe the shareholder should participate in our expected substantial cash flow and values a pattern of increases.

Return on Shareholders' Equity*



*Before extraordinary items.

Return on Total Capital*



*Before extraordinary items.

Voluntary Wage and Price Standards. The company believes that it is in compliance with the voluntary Federal wage and price guidelines which are part of the Administration's anti-inflation program. Compliance did not have a material effect on the company's overall operations during 1979, and it is not expected to have a significant impact during 1980.

Energy. The efficient use of energy is an increasingly important issue. We are confident that the energy conservation programs and fuel conversion projects put in place during the past few years will better position us to cope with increasing energy costs and possible energy curtailments. In 1979, the company obtained 52% of the energy for its manufacturing plants from renewable or self-generated energy resources (wood wastes, pulping liquors and hydroelectric power) up from 45% in 1972.

In 1975 the company established a goal to reduce our use of purchased energy per unit of output 20 percent by year-end 1980 compared with 1972. We achieved this goal a year early, at year-end 1979. In 1980 we will develop new energy saving goals for our operations, extending the energy conservation program through 1985.

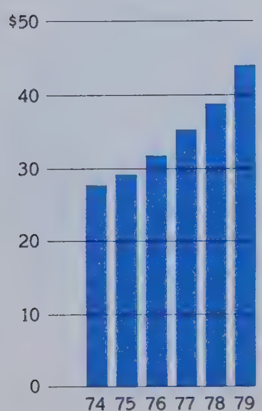
Inflation. The company believes that its financial reporting should provide information which will help its management, shareholders, creditors and others better understand the impact inflation has had on its operations. To respond to this need, the company has prepared supplemental financial information adjusted for the impact of general inflation. This supplemental information, together with an explanation of how it was prepared and its relevance to the company, is presented on pages 51 through 56 of this report.

The accounting profession has been criticized in recent years for its inability to agree on an approach which will better measure and reflect the impact of inflation in historical financial statements. Recently, two methods were prescribed to deal with this problem. These methods, which are described in greater detail on pages 51 through 56 in this report, include a "constant dollar" approach, which adjusts financial information for the impacts of general inflation, and a "current cost" approach, under which the data is adjusted for changes in specific prices to reflect the current cost of the resources used.

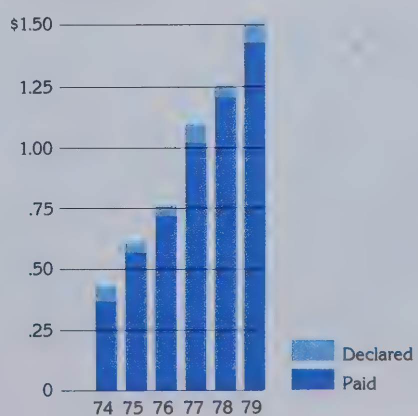
The company believes that the constant dollar approach is the best technique yet devised to deal with the effects of inflation on financial statements. Not only are the techniques of constant dollar accounting well established and objective but, in our opinion, constant dollar accounting gets to the heart of the problem of inflation. Under traditional historical accounting, the purchasing power of a dollar of yesterday's costs is not recovered by a dollar of today's revenues. However, reported operating results — and income taxes — are determined as though it were. By stating results in terms of a constant unit of measure, the trends of sales, earnings and taxes can be determined.

This supplemental data highlights the "hidden" tax being borne by the company, which results from the fact that companies are not permitted to adjust deductions (for tax purposes) for the effects of inflation on the cost of goods sold,

Shareholders' Equity Per Share



Dividends Per Common Share



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depreciation or the cost of timber harvested. As a result, our effective tax rate increases with inflation, and the tax burden is often significantly greater than indicated by legislated rates. Some of the present tools management has to cope with this problem are the use of the last-in, first-out (LIFO) method of inventory valuation (which matches current costs with current revenues) and accelerated methods of depreciation. These methods are used by the company where appropriate.

A review of the company's supplementary data indicates that, although revenues were higher when restated in constant dollars, income from operations was lower than amounts reported in historical dollars. This was primarily because of higher depreciation charges resulting from the restatement of depreciable assets to current year dollars. However, the lower operating earnings were partially offset by the purchasing power gain from holding net monetary liabilities because liabilities can be paid with dollars of decreased purchasing power. Over the five-year period, the company achieved real growth in earnings after eliminating the impact of inflation. The purchasing power of our invested capital increased, and shareholders' equity per common share in constant 1979 dollars increased 24% to $68.71. Our funds provided from operations during this same period were sufficient to allow us to increase our dividend payment each year and still be able to internally fund the majority of a large capital expenditure program. This was accomplished in spite of the higher effective tax rate previously discussed.

Supplemental disclosure of financial information can highlight the symptoms of the inflation problem, but that alone cannot solve it. Congress and other governmental agencies must control spending and exercise restraint in developing monetary and fiscal policies. Existing regulatory requirements also contribute to inflation by diverting assets, including human resources, to nonproductive uses and, therefore, must be critically reviewed if we are to make any significant progress toward controlling inflation.

Report of Management. The financial statements and related notes of Boise Cascade Corporation and consolidated subsidiaries which follow were prepared by management in conformity with generally accepted accounting principles appropriate in the circumstances. In preparing the financial statements, management has made judgments and estimates based on currently available information. Management is primarily responsible for all information and representations contained in the financial statements, and financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

In fulfilling its responsibility for the reliability of the financial statements, management maintains a system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that transactions are executed in accordance with management's authorization. Management recognizes that errors or irregularities may nevertheless

Closing Prices of Common Stock

	1979		1978	
Quarter	**High**	**Low**	High	Low
1	**$35-1/4**	**$27-1/8**	$25-7/8	$22-1/2
2	**35-5/8**	**31-7/8**	30-1/8	25
3	**38-7/8**	**34-1/4**	33	25-1/4
4	**39-7/8**	**31-5/8**	31-5/8	23-7/8

Common Stock

1979	1978
Dividends Paid	
$ .3125	$ .275
.375	.3125
.375	.3125
.375	.3125

The company's common stock is traded principally on the New York Stock Exchange.

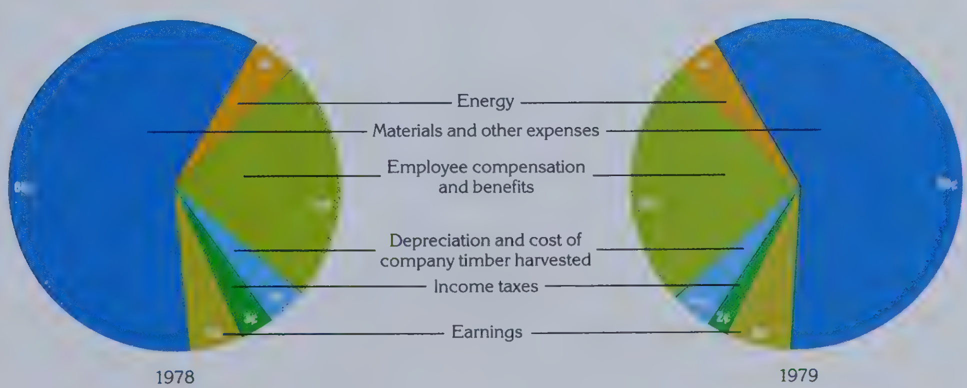
Due to the small number of preferred shares outstanding, the company's preferred stock was not actively traded in 1979 and 1978. The company paid a dividend of 75¢ per share on its preferred stock in each quarter of 1979 and 1978.

occur. The concept of reasonable assurance is based on the recognition that the cost of an internal accounting control should not exceed the benefits expected to be derived. The system includes, among other things, written policies and procedures and the careful selection and training of our employees. Adherence to these policies as well as the functioning of the financial reporting system and the related internal accounting controls are monitored by a coordinated audit effort of the company's internal audit staff and independent public accountants.

The Audit Committee of the board of directors, which is composed solely of outside directors, meets periodically with management, the company's internal audit staff and representatives of the company's independent public accounting firm to assure that each group is carrying out its responsibilities. The Audit Committee reviews the scope of the internal and external audit activities and the results of the annual audit. Both the independent public accountants and the internal auditors have access to the Audit Committee, without the presence of management, to discuss the results of their examinations, the adequacy of internal accounting controls and the quality of financial reporting.

The financial statements in this Annual Report have been examined by Arthur Andersen & Co., the company's independent public accounting firm. Its responsibility is to apply generally accepted auditing standards, including a review of internal accounting controls and tests of transactions to the extent deemed necessary in the circumstances. The objective of applying these standards is to allow Arthur Andersen & Co. to express an opinion as to whether our financial statements, considered in their entirety, present fairly the company's financial condition and operating results.

Sales Dollar Uses



Financial Review

Summary of Operations*	1979	1978	1977	1976	1975	1974
	Year Ended December 31 (expressed in thousands)					
Sales	**$2,916,610**	$2,573,110	$2,315,780	$1,931,530	$1,458,050	$1,453,550
Costs and expenses	**2,685,050**	2,342,510	2,089,760	1,777,780	1,362,500	1,287,333
Income from operations	**231,560**	230,600	226,020	153,750	95,550	166,217
Other income, net	**31,830**	22,850	8,530	30,280	25,770	30,410
Interest expense	**(40,560)**	(37,830)	(38,130)	(31,950)	(22,250)	(21,257)
Income taxes	**(47,910)**	(79,920)	(80,810)	(54,750)	(35,180)	(71,730)
Income before extraordinary items	**174,920**	135,700	115,610	97,330	63,890	103,640
Extraordinary items, net of taxes	**—**	(2,900)	—	3,500	—	1,330
Net income	**$ 174,920**	$ 132,800	$ 115,610	$ 100,830	$ 63,890	$ 104,970
Income per share						
Income before extraordinary items	**$6.52**	$5.02	$4.00	$3.30	$2.16	$3.51
Extraordinary items	**—**	(.11)	—	.12	—	.04
Net income	**$6.52**	$4.91	$4.00	$3.42	$2.16	$3.55
Average shares outstanding	**26,809,450**	26,999,066	28,839,647	29,436,741	29,451,660	29,486,733
Cash dividends declared per common share	**$1.50**	$1.25	$1.10	$.7625	$.6125	$.4375

Balance Sheets	1979	1978	1977	1976	1975	1974
Assets						
Cash and short-term investments	**$ 42,315**	$ 63,692	$ 71,616	$ 105,286	$ 34,071	$ 92,672
Receivables, net	**263,850**	237,641	205,319	204,675	140,077	129,735
Inventories	**377,897**	341,087	332,384	303,903	254,128	240,849
Other current assets	**9,380**	34,797	9,547	9,423	7,724	7,773
Property and equipment, net	**1,257,432**	976,146	830,706	738,342	631,531	534,190
Timber and timberlands	**209,992**	181,745	164,742	145,745	117,694	109,385
Timber deposits	**12,995**	14,807	16,603	17,562	16,199	11,993
Investments in joint ventures	**85,144**	75,802	66,803	86,263	81,129	76,840
Realty assets	**—**	—	48,288	62,049	172,177	241,243
Foreign government notes, net of investment reserve	**—**	—	—	—	58,074	70,005
Other assets	**50,052**	56,230	53,040	57,994	56,520	44,176
	$2,309,057	$1,981,947	$1,799,048	$1,731,242	$1,569,324	$1,558,861
Liabilities and Shareholders' Equity						
Notes payable	**$ 24,936**	$ 42,730	$ 17,643	$ 22,573	$ 25,676	$ 11,075
Current portion of long-term debt	**29,123**	28,811	25,083	23,853	46,733	44,777
Income taxes payable	**2,328**	—	37,120	9,662	898	12,691
Accounts payable and accrued liabilities	**353,013**	328,406	263,891	241,899	213,190	203,117
Long-term debt, less current portion	**571,661**	412,586	432,152	439,476	386,082	453,797
Realty liabilities	**—**	—	11,676	12,348	10,238	9,991
Deferred income taxes (benefits)	**94,903**	63,633	17,864	1,063	(193)	(16,836)
Minority interests in subsidiaries	**—**	—	—	2,853	2,823	5,069
Other long-term liabilities	**54,693**	47,384	34,531	32,144	17,636	13,246
Shareholders' equity	**1,178,400**	1,058,397	959,088	945,371	866,241	821,934
	$2,309,057	$1,981,947	$1,799,048	$1,731,242	$1,569,324	$1,558,861

*See Discussion and Analysis of the Summary of Operations beginning on page 57.

Financial Statements

Contents

Balance Sheets
Boise Cascade Corporation and Subsidiaries

Assets	December 31 1979	1978
	(expressed in thousands)	
Current		
Cash and short-term investments (Note 6)	$ 42,315	$ 63,692
Receivables, less allowances of $3,545,000 and $2,224,000	263,850	237,641
Inventories (Note 1)	377,897	341,087
Other	9,380	34,797
	693,442	677,217
Property (Note 1)		
Property and equipment	1,885,183	1,535,938
Accumulated depreciation	(627,751)	(559,792)
	1,257,432	976,146
Timber and timberlands	209,992	181,745
Timber deposits	12,995	14,807
	1,480,419	1,172,698
Other		
Investments in joint ventures (Note 3)	85,144	75,802
Other assets	50,052	56,230
	$2,309,057	$1,981,947

Liabilities and Shareholders' Equity

	December 31 1979	1978
	(expressed in thousands)	
Current		
Notes payable (Note 6)	$ 24,936	$ 42,730
Current portion of long-term debt	29,123	28,811
Income taxes payable	2,328	—
Accounts payable and accrued liabilities	353,013	328,406
	409,400	399,947
Long-term debt, less current portion (Note 6)	571,661	412,586
Other		
Deferred income taxes (Note 2)	94,903	63,633
Other long-term liabilities	54,693	47,384
	149,596	111,017
Shareholders' equity (Note 9)		
Preferred stock	5,533	5,543
Common stock	66,504	67,516
Additional paid-in capital	302,186	315,655
Retained earnings	804,177	669,718
Treasury stock, at cost	—	(35)
	1,178,400	1,058,397
	$2,309,057	$1,981,947

The accompanying notes are an integral part of these Financial Statements.

Statements of Income

Boise Cascade Corporation and Subsidiaries

	Year Ended December 31 1979	1978
	(expressed in thousands)	
Revenues		
Sales	**$2,916,610**	$2,573,110
Other income, net	**31,830**	22,850
	2,948,440	2,595,960
Costs and expenses		
Cost of sales	**2,280,200**	1,996,530
Depreciation and cost of company timber harvested	**108,990**	91,720
Selling and administrative expenses	**295,860**	254,260
Interest expense (Note 1)	**40,560**	37,830
	2,725,610	2,380,340
Income before income taxes and extraordinary items	**222,830**	215,620
Income taxes (Note 2)	**47,910**	79,920
Income before extraordinary items	**174,920**	135,700
Extraordinary items (Note 4)	—	(2,900)
Net income	**$ 174,920**	$ 132,800
Per share (Note 1)		
Income before extraordinary items	**$6.52**	$5.02
Extraordinary items (Note 4)	—	(.11)
Net income	**$6.52**	$4.91

The accompanying notes are an integral part of these Financial Statements.

Statements of Changes in Financial Position

Boise Cascade Corporation and Subsidiaries

	Year Ended December 31 1979	1978
	(expressed in thousands)	
Sources of Working Capital		
Income before extraordinary items	$174,920	$135,700
Items in income not affecting working capital		
Depreciation and cost of company timber harvested	108,990	91,720
Deferred income tax provision (Note 2)	26,660	13,238
Equity in earnings of joint ventures (Note 3)	(19,658)	(16,503)
Total from operations	290,912	224,155
Extraordinary items, net (Note 4)	—	(2,900)
Additions to long-term debt	222,420	27,439
Sales of property and equipment	27,674	22,396
Increase (decrease) in deferred taxes	4,610	(7,221)
Sale of net realty assets (Note 4)	—	36,612
Tax benefits not affecting income (Note 2)	—	39,752
Dividends received from joint ventures	8,808	7,646
Net increase in other long-term liabilities	7,309	12,853
All other, net	4,237	(8,179)
Total sources of working capital	565,970	352,553
Uses of Working Capital		
Additions to property and equipment	402,760	243,285
Expenditures for timber and timberlands	37,743	26,160
Payments and current portion of long-term debt	63,352	46,908
Cash dividends declared	40,461	34,024
Purchase of common stock (Note 9)	14,882	35
Total uses of working capital	559,198	350,412
Increase in working capital	$ 6,772	$ 2,141
Changes in Working Capital		
Increase (decrease) in current assets		
Cash and short-term investments	$ (21,377)	$ (7,924)
Receivables	26,209	32,322
Inventories	36,810	8,703
Other	(25,417)	25,250
	16,225	58,351
(Increase) decrease in current liabilities		
Notes payable	17,794	(25,087)
Current portion of long-term debt	(312)	(3,728)
Income taxes payable	(2,328)	37,120
Accounts payable and accrued liabilities	(24,607)	(64,515)
	(9,453)	(56,210)
Increase in working capital	$ 6,772	$ 2,141

The accompanying notes are an integral part of these Financial Statements.

Statements of Shareholders' Equity

Boise Cascade Corporation and Subsidiaries

For the Years Ended December 31, 1978 and 1979

Common Shares Outstanding	Note 9	Total Share-holders' Equity	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
				(expressed in thousands)			
26,985,313	Balance at December 31, 1977	$ 959,088	$5,543	$67,463	$315,140	$570,942	$ —
	Net income	132,800				132,800	
	Cash dividends declared						
	Common stock	(33,768)				(33,768)	
	Preferred stock	(256)				(256)	
23,465	Stock options exercised	568		59	509		
(1,346)	Purchases of common stock	(35)					(35)
(2,536)	Other transactions			(6)	6		
27,004,896	Balance at December 31, 1978	1,058,397	5,543	67,516	315,655	669,718	(35)
	Net income	174,920				174,920	
	Cash dividends declared						
	Common stock	(40,205)				(40,205)	
	Preferred stock	(256)				(256)	
15,621	Stock options exercised	426		39	387		
(418,976)	Purchases of common stock	(14,882)					(14,882)
	Treasury stock cancellations			(1,051)	(13,866)		14,917
136	Conversion of preferred stock		(10)		10		
26,601,677	Balance at December 31, 1979	$1,178,400	$5,533	$66,504	$302,186	$804,177	$ —

The accompanying notes are an integral part of these Financial Statements.

Notes to Financial Statements

Boise Cascade Corporation and Subsidiaries

1. Summary of Significant Accounting Policies

Consolidation. The financial statements include the accounts of the Company and all subsidiaries after elimination of intercompany balances and transactions. At December 31, 1979, the carrying amount of investments in consolidated subsidiaries exceeded underlying book value by $7,643,000. Substantially all of this amount is being amortized over periods of up to 30 years.

Inventory Valuation. The Company uses the last-in, first-out (LIFO) method of inventory valuation for raw materials and finished goods inventories at its domestic wood products and paper manufacturing facilities. All other inventories are valued at the lower of average cost or market. Manufactured inventories include costs for material, labor and factory overhead.

Other Income. "Other income, net" in the Statements of Income includes equity in earnings of joint ventures, gains or losses on the sale of property, foreign exchange gains or losses, interest income and other miscellaneous income and expense items.

Net Income Per Share. Net income per share has been computed on the basis of the average number of common shares outstanding during the periods, after deducting from net income the dividends on the preferred shares. Stock options, Series A preferred stock and shares issuable under the 1979 Performance Share Plan and 1979 Incentive Stock Plan are considered common stock equivalents, but their assumed conversion had no dilutive effect on net income per share. The average number of shares used in the computation was 26,809,450 for 1979 and 26,999,066 for 1978.

Property. Property and equipment are recorded at cost. Lease obligations for which the Company assumes substantially all the property rights and risks of ownership are capitalized. Improvements which increase the useful life of the property and replacements of major units of property are capitalized, and the replaced property is retired. Maintenance, repairs and minor replacements are expensed as incurred.

Provisions for depreciation and amortization of property and equipment are computed on the units-of-production method at certain wood products and paper manufacturing facilities. Other facilities are depreciated on the straight-line method. The estimated service lives of the principal items of property and equipment range from 3 to 40 years.

The net book value of property sold or retired is removed from the asset and the related depreciation accounts, and the net gain or loss is included in income. Certain operations utilize composite depreciation methods; accordingly, there is no gain or loss recognized on partial sales or retirements.

Interest is normally expensed as incurred, except when it is incurred in conjunction with major capital additions, and then it is capitalized as part of the asset cost. Interest capitalized on major capital additions is determined by applying current interest rates to the funds required to finance the construction. Interest of $12,981,000 and $2,106,000 was capitalized during 1979 and 1978, increasing earnings per share by 25¢ and 4¢, respectively. The amortization of interest capitalized in prior years did not significantly affect income for the periods.

Timber and timberlands are presented at cost, less the cost of company timber harvested. Cost of company timber harvested and amortization of logging roads are determined on the basis of timber removals at rates based on the estimated volume of recoverable timber and are credited to the respective asset accounts.

Timber deposits are made on timber harvesting contracts with public and private sources from which the Company obtains a portion of its timber requirements. As of December 31, 1979, the Company had deposited $12,995,000 on timber harvesting contracts totaling approximately $270,214,000. Only the cash deposits and advances on these contracts are reflected because the Company generally does not incur a direct liability for, or ownership of, this timber until it has been harvested.

Foreign Operations. The accounts of foreign operations are translated to U.S. dollars at market rates of exchange as follows: cash and short-term investments, accounts receivable, receivables due beyond one year, current liabilities and long-term debt are translated at rates of exchange in effect at the balance sheet dates; income and expense accounts are translated at average exchange rates for the year, except for depreciation and amortization; and all other accounts are translated at historical exchange rates. Foreign exchange gains and losses were not material in 1979 or 1978.

Start-up Costs. Preoperating costs incurred in conjunction with major new manufacturing facilities are capitalized during the period of construction and are amortized over periods ranging up to 15 years. Start-up costs in the amount of $715,000 were capitalized in 1979. No significant amounts of preoperating costs were capitalized in 1978. Preoperating costs capitalized have a remaining balance of approximately $4,311,000, of which $3,485,000 is related to costs incurred during the formation and start-up of Boise Southern Company, a joint venture (Note 3). Amortization of preoperating costs did not significantly affect income in 1979 or 1978.

Research and Development Costs. Research and development costs are expensed as incurred. During 1979 and 1978, research and development expenses were approximately $5,244,000 and $4,277,000, respectively.

2. Income Taxes

The Company provides income taxes for all items included in the Statements of Income, regardless of when such items are reported for tax purposes and when the taxes are actually paid. The investment tax credit is recognized currently as a reduction of income tax expense. The amounts recognized include approximately $11,778,000 of U.S. investment tax credit that will be carried forward and can be used to offset future taxes payable. The Company uses the progress expenditure method for taking investment tax credits on projects which will be under construction for more than two years.

Income tax expense includes the following:

	Year Ended December 31				
	1979				1978
	Federal	State	Foreign	Total	Total
	(expressed in thousands)				
Current income taxes	$11,721	$ 8,116	$1,413	$21,250	$66,682
Deferred income taxes	21,917	2,670	2,073	26,660	13,238
Total income tax expense	$33,638	$10,786	$3,486	$47,910	$79,920

A reconciliation of the theoretical tax expense, assuming all United States and foreign income were taxed at the statutory U.S. Federal income tax rate, and the Company's actual tax expense is as follows:

	Year Ended December 31			
	1979		1978	
	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
	(expressed in thousands, except percentages)			
Theoretical tax expense	$102,502	46.00%	$103,498	48.00%
Increases (decreases) in taxes resulting from				
Income taxed at the capital gains rate	(22,568)	(10.13)	(11,349)	(5.26)
U.S. investment tax credits	(38,519)	(17.29)	(14,859)	(6.89)
Other	6,495	2.92	2,630	1.22
Actual tax expense	$ 47,910	21.50%	$ 79,920	37.07%

Deferred income taxes result from timing differences in recognition of revenue and expense for tax and financial reporting purposes. The nature of these differences and the tax effect of each were as follows:

	Year Ended December 31	
	1979	1978
	(expressed in thousands)	
Book depreciation less than tax depreciation	$24,672	$14,246
Deferred expense, net of amortization	8,310	(320)
Decrease in tax basis of inventories resulting from timber capital gains	53	1,520
Other	(6,375)	(2,208)
Deferred income tax provision	$26,660	$13,238

For the year ended December 31, 1978, the Company recognized $39,752,000 of tax benefits from the completion of the liquidation of the realty business and from other previously discontinued businesses.

The Company has undistributed earnings of approximately $102,813,000 from certain of its foreign subsidiaries. U.S. income taxes, net of allowable foreign income tax credits, have been provided on $9,404,000 of the undistributed earnings. U.S. income taxes have not been provided on $93,409,000 of the undistributed earnings of Canadian subsidiaries because the Company has reinvested or plans to reinvest those earnings in Canada.

The Company's Federal income tax returns have been examined through 1975, and certain deficiencies have been proposed. The amount of deficiencies, if any, which may result upon settlement of these years cannot be determined at this time, but the Company believes that it has sufficient reserves to cover any such deficiencies.

3. Investments in Joint Ventures

The Company, through a wholly owned subsidiary, has a 50% interest in an unincorporated joint venture, Boise Southern Company, which is engaged in the paper manufacturing and wood products businesses in Louisiana and Texas. Long-term financing of the original De Ridder, Louisiana, paper mill facilities was provided directly to Boise Southern by outside sources under a sale and lease-back agreement. The Company has guaranteed 50% of the lease payments for these facilities. These payments approximate $8,210,000 annually through 1993. In addition, the Company has guaranteed annual lease payments of approximately $2,468,000 through 1991 for certain timberlands leased by Boise Southern and has an indemnification agreement with the co-venturer, Southern Forest Products, Inc., and its parent, Southern Natural Resources, Inc., for 50% of this guarantee. The Company is obligated to purchase a substantial amount of the De Ridder paperboard production and half of its newsprint production.

The Company, through another wholly owned subsidiary, has a 50% interest in Duropack Neusiedler-Wiener Wellpappe Gesellschaft mbH, a company engaged in the corrugated container business in Austria.

The Company has management contracts with Boise Southern and Duropack. The Company received $1,081,000 of management fees and sales service fees and reimbursement of $20,290,000 of management expenses in 1979. The Company had total sales of $1,014,000 to the joint ventures and had total purchases of $113,378,000 from them for the year ended December 31, 1979. At December 31, 1979, the Company had receivables from the joint ventures amounting to $1,424,000 and payables to them totaling $8,560,000.

Notes to Financial Statements

Boise Cascade Corporation and Subsidiaries

Summary of Operating Results of Joint Ventures

	Year Ended December 31			
	1979			1978
	Boise Southern	Duropack	Combined	Combined
	(expressed in thousands)			
Revenues	$199,811	$40,401	$240,212	$216,804
Costs and expenses	149,086	31,946	181,032	155,128
Depreciation, depletion and cost of company timber harvested	11,985	894	12,879	18,827
Interest expense	4,308	166	4,474	5,971
Income taxes	—	2,513	2,513	2,802
Net income	$ 34,432	$ 4,882	$ 39,314	$ 34,076
Boise Cascade Equity in Earnings	$ 17,217	$ 2,441	$ 19,658	$ 16,503

Summary of Financial Condition of Joint Ventures

	December 31			
	1979			1978
	Boise Southern	Duropack	Combined	Combined
	(expressed in thousands)			
Assets				
Current assets	$ 42,068	$14,961	$ 57,029	$ 46,191
Property and equipment, net	202,701	5,763	208,464	116,772
Timber and timberlands	70,605	—	70,605	71,094
Other assets	39,734	144	39,878	39,836
	$355,108	$20,868	$375,976	$273,893
Liabilities and Equity				
Current liabilities	$ 33,872	$10,682	$ 44,554	$ 34,024
Long-term debt	166,370	72	166,442	94,286
Other long-term liabilities	2,714	—	2,714	2,881
Equity	152,152	10,114	162,266	142,702
	$355,108	$20,868	$375,976	$273,893
Boise Cascade Equity	$ 76,076	$ 5,057	$ 81,133	$ 71,351
Boise Cascade Investment	$ 80,087	$ 5,057	$ 85,144	$ 75,802

The difference between the Company's investment and the Company's equity in joint ventures arises primarily because the cost exceeded the underlying book value of these investments by $4,011,000 at December 31, 1979, and by $4,451,000 at December 31, 1978. Of the difference at December 31, 1979, $3,485,000 is attributable to costs incurred in the formation and start-up of Boise Southern. These costs are being amortized on a straight-line basis over a 15-year period.

4. Extraordinary Items

During 1978, the Company made provisions principally for settlement of private class action antitrust lawsuits involving its corrugated container and fine paper operations. After taxes of $11,000,000, the court-approved settlements resulted in an extraordinary charge of $14,900,000, representing 55¢ per share. Also, during December 1978, the Company completed the liquidation of its remaining realty business. The remaining unused portions of reserves established in prior years to provide for losses incurred during the liquidation were returned to income in the form of an extraordinary gain of $12,000,000, representing 44¢ per share.

5. Leases

The Company has incurred rental expenses, net of sublease rentals, for operating and month-to-month leases, excluding timber leases, amounting to $16,643,000 in 1979 and $15,214,000 in 1978.

The Company has various operating leases with remaining terms of more than one year. These leases have minimum lease payment requirements, net of sublease rentals, of $6,798,000 for 1980, $5,311,000 for 1981, $4,016,000 for 1982, $3,270,000 for 1983, $2,729,000 for 1984, with total payments thereafter of $16,915,000.

Substantially all lease agreements have fixed payment terms based upon the lapse of time. Certain lease agreements provide the Company with the option to purchase the leased property at the end of the lease term. Additionally, certain lease agreements contain renewal options ranging from 1 to 45 years, with fixed payment terms similar to the original lease agreements.

6. Notes Payable and Long-term Debt

The Company has total short-term lines of credit aggregating $59,600,000. Of this amount, $50,000,000 are domestic lines of credit with interest at the prime rate, all of which were unused as of December 31, 1979. The domestic lines require compensating balances equivalent to 10% of commitments whether drawn or not. The average amount of compensating balances maintained during 1979 was approximately $5,000,000. Commitments by lenders to foreign operations total approximately $9,600,000, of which $7,800,000 was unused at December 31, 1979.

The Company had $22,930,000 of commercial paper, net of interest, outstanding at December 31, 1979. The long-term credit agreements discussed below support the commercial paper issued by the Company.

During 1979, the Company's average aggregate short-term notes payable were $70,461,000, and at no month-end during the period did the short-term notes payable exceed $109,021,000. The weighted average interest rate on short-term notes payable was 10.4%. During 1978, the Company's average aggregate short-term notes payable were $21,636,000, and at no month-end during the period did the short-term notes payable exceed $42,730,000. The weighted average interest rate on short-term notes payable was 8.0%.

At December 31, 1979, the Company had four unsecured revolving credit agreements, allowing the Company to borrow up to $350,000,000. The interest rates for these agreements will range from 1% below to 1-1/2% in excess of the prime interest rate. The revolving periods expire at various times between 1982 and 1984, and $285,000,000 may be converted to term loans with two to three year maturities. During the third quarter of 1979, the Company borrowed $25,000,000 under one of these agreements, all of which was subsequently retired during the fourth quarter of 1979. Each of the revolving credit agreements requires a commitment fee to be paid on the unused portion during the revolving period. Compensating balances are not required under these agreements, and no borrowings were outstanding at December 31, 1979.

In 1979, the Company issued $150,000,000 of 9.90% unsecured notes due October 1, 1986, at a price of 99% of face value to yield 10.10% to maturity. Interest on the notes is payable semiannually on April 1 and October 1 of each year, commencing April 1, 1980. The notes are noncallable prior to 1983, and are callable thereafter at par plus accrued interest.

During 1979, the Company also entered into an unsecured five and one-half year term loan with an insurance company for $37,500,000. The interest rate on the loan is 9-5/8%, and the loan is payable in three equal installments, commencing in 1983.

Long-term debt consists of the following:

	December 31	
	1979	1978
	(expressed in thousands)	
Notes payable to insurance companies, banks and other financial institutions, with interest rates averaging 9.10% and 8.88%, due in varying amounts annually through 1997	$265,443	$250,524
9.90% unsecured notes, due in 1986	148,594	—
American & Foreign Power Company Inc.		
4.80% Debentures, subordinated to other long-term debt, due in 1987*	38,757	38,757
5.00% Debentures, due in 2030	43,652	43,581
Revenue bonds, with interest rates averaging 7.34% and 7.39%, due in varying amounts annually through 2008	75,608	76,414
Subordinated notes	—	6,400
Other long-term debt, with interest rates averaging 8.30% and 7.83%, due in varying amounts annually through 1996	28,730	25,721
	600,784	441,397
Less current portion	29,123	28,811
	$571,661	$412,586

*The Company holds $10,189,000 of American & Foreign Power Company Inc. 4.80% debentures. This amount is adequate to satisfy the remaining sinking fund requirements of the indenture. The amount of debentures shown above is net of the debentures held by the Company.

The scheduled payments of long-term debt are $29,123,000 in 1980, $24,871,000 in 1981, $23,133,000 in 1982, $33,792,000 in 1983, $45,535,000 in 1984 and a total of $444,330,000 payable in varying amounts annually thereafter through 2030.

The Company's loan agreements contain covenants and restrictions, none of which are expected to significantly affect its operations.

7. Litigation and Legal Matters

The Company is a defendant in a number of civil, non-class action antitrust suits involving its plywood, corrugated container and paper operations. During 1979, the Company responded to a U.S. Department of Justice civil investigative demand relating to newsprint, and it is currently challenging in U.S. District Court the propriety of another 1979 civil investigative demand relating to its linerboard and corrugating medium operations.

The Company is involved in other litigation primarily arising in the normal course of its business. In the opinion of management, the Company's recovery, if any, or the Company's liability, if any, under any pending litigation, including that described in the preceding paragraph, would not materially affect its financial condition or operations.

The Company and its majority owned subsidiary, Cuban Electric Company, have claims of $279,300,000 plus interest at 6% from 1960 against the Government of Cuba certified by the U.S. Foreign Claims Settlement Commission. These claims cannot be reflected in the Company's assets until agreement, if any, is reached with Cuba on their payment and the rights of Cuban Electric's creditors have been determined.

During 1979, the United States and the People's Republic of China reached an agreement on settlement of all American claims ($197,000,000 in the aggregate plus interest of 6% from 1950) through payment by the People's Republic of $80,500,000 over five years, $30,000,000 of which was paid in 1979 and the balance to be received in equal installments through 1984. The claims of Shanghai Power Company and another majority owned subsidiary of the Company against the People's Republic aggregating $55,600,000 plus interest of 6% from 1950 were part of this

settlement. If remaining payments are distributed to American claimants on a pro rata basis pursuant to current law, as was the 1979 payment, the Company's subsidiaries should ultimately receive a total of $21,000,000 for its claim. In addition, Shanghai Power has other assets of approximately $5,000,000 as a result of compensation paid to it for damage suffered by its properties during World War II. Shanghai Power has settled litigation brought by it in 1972 seeking to determine the respective rights of various Shanghai Power security holders. Under the settlement approved by the court in February 1980, Shanghai Power's 6 tael preferred stockholders, certain debenture holders, and their representatives may receive up to $8,000,000. The Company's approximately 80% interest in these subsidiaries is not now reflected in the Company's assets. These subsidiaries will be dissolved as soon as reasonably practicable.

8. Retirement Plans and Savings Plan

The Company has pension plans covering 33,588 of its 35,491 North American employees. In general, the plans are defined benefit plans which specify a determinable pension benefit. The plans are administered by the Company or trustees.

The Company's consulting actuaries calculate the annual pension expense and plan liabilities based on actuarial assumptions which are in conformity with general industry practice. Total pension expense, including amortization of unfunded liabilities, was $40,218,000 in 1979, representing 6.5% of total payroll. This compares with $34,518,000 or 6.1% in 1978. The unfunded liabilities are amortized over periods ranging from 15 to 20 years.

The actuarially computed value of vested benefits at December 31, 1979, exceeded the total pension fund assets of $274,000,000 at market value by approximately $58,000,000. Unfunded liabilities as of December 31, 1979, were $235,000,000.

Approximately 1,083 employees who are not included in the above pension plans are covered by multi-employer pension plans which are administered wholly by or jointly with various labor unions or the Railroad Retirement Board. These plans, which are not considered Company pension plans, are defined benefit plans to which the Company makes contributions based on a fixed amount per hour for each employee as specified in the labor agreements. Contributions to these plans totaled $1,230,000 in 1979, compared with $1,169,000 in 1978.

An investment savings plan is available to substantially all salaried employees. The Company's contribution to the investment savings plan was $3,627,000 for 1979, compared with $3,295,000 for 1978.

9. Shareholders' Equity

Preferred Stock. At December 31, 1979, there were 85,124 Series A shares outstanding of the 10,000,000 shares authorized. Each share of the Series A stock is without par value and is entitled to one vote and an annual dividend of $3.00 (cumulative). Each share is convertible at any time to .85 share of common stock, is entitled to a preference of $65.00 in liquidation and is callable at $65.00. During 1979, 160 preferred shares were converted to 136 shares of common stock. The unissued preferred shares may be issued with such voting rights, dividend rates, conversion privileges, sinking fund requirements and redemption prices as the board of directors may determine, without action by the shareholders.

Common Stock. At December 31, 1979, there were 50,000,000 shares ($2.50 par value) authorized and 26,601,677 shares issued and outstanding. Of the unissued shares, a total of 1,160,458 shares were reserved for the following: 72,267 shares for conversion of Series A preferred stock; 468,191 shares for issuance under the 1975 stock option plan; 500,000 shares for the 1979 Performance Share Plan; and 120,000 shares for the 1979 Incentive Stock Plan.

During 1979, the Company issued 15,621 shares at prices ranging from $11.00 to $32.13 per share under its stock option plan, compared with 23,465 shares issued at prices ranging from $9.88 to $13.00 per share during 1978. Stock options for 1,000 shares at a price of $23.88 were granted during 1978. At December 31, 1979, options were outstanding for 468,191 shares at prices ranging from $9.88 to $32.13, of which 354,929 shares were exercisable, with the balance exercisable at various times through 1988.

Notes to Financial Statements
Boise Cascade Corporation and Subsidiaries

During 1979, a Performance Share Plan and an Incentive Stock Plan were adopted for executive officers and key employees. These plans replace the Company's stock option plan, and no further options will be granted under the option plan. Shares reserved for unissued stock options were transferred to the Performance Plan. The Company reserved 500,000 and 120,000 shares, respectively, of its common stock for issuance under these programs. Generally, payments under the Performance Plan are tied directly to the Company's ability to perform successfully over five-year periods of time (compared to its key competitors as defined in the Performance Plan) and to the increase in the value of the Company's stock. Payments pursuant to the Incentive Plan are based on the increase in the value of the Company's stock over five-year periods. Payments under these plans will normally be made in equal portions of cash and common stock. During 1979, the Company awarded 85,250 performance shares and 29,420 incentive shares. The expense related to these plans in 1979 was $736,000.

In 1978, the Company announced a program for the purchase in the open market of up to 1,000,000 shares of its common stock. As of December 31, 1979, the Company had purchased and canceled 420,322 shares of its common stock under this program. The canceled shares were restored to authorized but unissued shares.

Retained Earnings. At December 31, 1979, $200,793,000 of the Company's retained earnings was available for the payment of dividends pursuant to the terms of certain loan agreements.

10. Segment Information

The Company is an integrated forest products company. It is engaged principally in the manufacture, distribution and sale of paper, packaging and office products, wood products and building materials, and in the growing and harvesting of timber to support these operations. Its manufacturing and distribution facilities and its timberlands are located primarily in the United States and Canada. The Company is a participant in joint ventures in connection with certain of its businesses. Other operations consist of information services, leasing, transportation and insurance operations which primarily support other operating units of the Company.

An analysis of the Company's operations by segment is as follows:

	Trade Sales	Intersegment Sales	Total Sales	Income	Depreciation and Cost of Company Timber Harvested	Capital Expenditures*	Assets
			(expressed in thousands)				
Year Ended December 31, 1979							
Paper	$ 853,456	$ 34,361	$ 887,817	$143,269	$ 53,433	$279,422	$ 980,427
Packaging and office products	759,535	4,191	763,726	51,565	12,827	22,361	306,021
Wood products	506,343	190,901	697,244	61,142	29,446	43,460	317,670
Building materials	793,917	551	794,468	22,926	6,310	49,560	271,080
Other operations	3,359	38,799	42,158	3,091	5,756	5,678	58,239
Total	2,916,610	268,803	3,185,413	281,993	107,772	400,481	1,933,437
Intersegment eliminations	—	(268,803)	(268,803)	—	—	—	(20,843)
Change in intersegment profit in inventories	—	—	—	2,563	—	—	—
Equity in joint ventures	—	—	—	19,658	—	—	85,144
Timber, timberlands and timber deposits	—	—	—	—	—	37,743	222,987
Corporate administration	—	—	—	(40,824)	1,218	2,279	88,332
Interest expense	—	—	—	(40,560)	—	—	—
Income taxes	—	—	—	(47,910)	—	—	—
Consolidated totals	$2,916,610	$ —	$2,916,610	$174,920	$108,990	$440,503	$2,309,057

	Trade Sales	Inter-segment Sales	Total Sales	Income	Depreciation and Cost of Company Timber Harvested	Capital Expend-itures*	Assets
				(expressed in thousands)			
Year Ended December 31, 1978							
Paper	$ 671,643	$ 23,414	$ 695,057	$ 90,921	$ 43,135	$150,687	$ 708,003
Packaging and office products	653,289	2,727	656,016	36,323	11,627	23,306	283,837
Wood products	497,106	201,610	698,716	100,613	26,586	32,147	317,880
Building materials	749,321	229	749,550	40,988	4,708	29,259	215,924
Other operations	1,751	33,745	35,496	4,007	4,661	6,703	46,636
Total	2,573,110	261,725	2,834,835	272,852	90,717	242,102	1,572,280
Intersegment eliminations	—	(261,725)	(261,725)	—	—	—	(20,633)
Change in intersegment profit in inventories	—	—	—	(1,571)	—	—	—
Equity in joint ventures	—	—	—	16,503	—	—	75,802
Timber, timberlands and timber deposits	—	—	—	—	—	26,160	196,552
Corporate administration	—	—	—	(34,334)	1,003	1,183	157,946
Interest expense	—	—	—	(37,830)	—	—	—
Income taxes	—	—	—	(79,920)	—	—	—
Extraordinary items	—	—	—	(2,900)	—	—	—
Consolidated totals	$2,573,110	$ —	$2,573,110	$132,800	$ 91,720	$269,445	$1,981,947
Year Ended December 31, 1977							
Paper	$ 692,468	$ 35,400	$ 727,868	$115,487	$ 42,389	$ 83,750	$ 630,609
Packaging and office products	563,179	2,974	566,153	31,843	10,647	18,640	251,469
Wood products	449,674	188,316	637,990	73,248	23,047	43,626	325,803
Building materials	608,853	457	609,310	35,583	3,412	12,783	163,708
Other operations	1,606	29,933	31,539	2,591	3,814	4,637	38,146
Total	2,315,780	257,080	2,572,860	258,752	83,309	163,436	1,409,735
Intersegment eliminations	—	(257,080)	(257,080)	—	—	—	(21,583)
Change in intersegment profit in inventories	—	—	—	909	—	—	—
Equity in joint ventures	—	—	—	9,624	—	—	66,803
Timber, timberlands and timber deposits	—	—	—	—	—	24,375	181,345
Corporate administration	—	—	—	(34,735)	961	841	162,748
Interest expense	—	—	—	(38,130)	—	—	—
Income taxes	—	—	—	(80,810)	—	—	—
Consolidated totals	$2,315,780	$ —	$2,315,780	$115,610	$ 84,270	$188,652	$1,799,048

*Capital expenditures do not include $45,982,000, $30,526,000 and $45,579,000 of lease commitments, working capital and other items associated with 1979, 1978 and 1977 projects, respectively. Of the 1979 amount, $19,267,000 resulted from the working capital purchased with the 60 building materials distribution facilities acquired from Lone Star Industries, Inc.

Notes to Financial Statements

Boise Cascade Corporation and Subsidiaries

An analysis of operations by geographic area is as follows:

	Trade Sales	Sales Between Geographic Areas	Total Sales	Income	Assets
		(expressed in thousands)			
Year Ended December 31, 1979					
United States	$2,690,587	$ 4,375	$2,694,962	$265,634	$1,670,723
Canada	206,095	19,035	225,130	16,165	236,228
Other foreign	19,928	5,344	25,272	194	26,623
Total	2,916,610	28,754	2,945,364	281,993	1,933,574
Eliminations	—	(28,754)	(28,754)	—	(19,495)
Change in intersegment profit in inventories	—	—	—	2,563	—
Equity in joint ventures	—	—	—	19,658	85,144
Timber, timberlands and timber deposits	—	—	—	—	222,987
Corporate administration	—	—	—	(40,824)	86,847
Interest expense	—	—	—	(40,560)	—
Income taxes	—	—	—	(47,910)	—
Consolidated totals	$2,916,610	$ —	$2,916,610	$174,920	$2,309,057
Year Ended December 31, 1978					
United States	$2,387,427	$ 9,160	$2,396,587	$274,606	$1,341,946
Canada	167,248	13,073	180,321	3,564	204,982
Other foreign	18,435	3,416	21,851	(5,318)	18,669
Total	2,573,110	25,649	2,598,759	272,852	1,565,597
Eliminations	—	(25,649)	(25,649)	—	(13,950)
Change in intersegment profit in inventories	—	—	—	(1,571)	—
Equity in joint ventures	—	—	—	16,503	75,802
Timber, timberlands and timber deposits	—	—	—	—	196,552
Corporate administration	—	—	—	(34,334)	157,946
Interest expense	—	—	—	(37,830)	—
Income taxes	—	—	—	(79,920)	—
Extraordinary items	—	—	—	(2,900)	—
Consolidated totals	$2,573,110	$ —	$2,573,110	$132,800	$1,981,947
Year Ended December 31, 1977					
United States	$2,101,845	$ 8,529	$2,110,374	$241,901	$1,168,769
Canada	153,748	12,259	166,007	14,296	193,345
Other foreign	60,187	3,662	63,849	2,555	44,843
Total	2,315,780	24,450	2,340,230	258,752	1,406,957
Eliminations	—	(24,450)	(24,450)	—	(18,805)
Change in intersegment profit in inventories	—	—	—	909	—
Equity in joint ventures	—	—	—	9,624	66,803
Timber, timberlands and timber deposits	—	—	—	—	181,345
Corporate administration	—	—	—	(34,735)	162,748
Interest expense	—	—	—	(38,130)	—
Income taxes	—	—	—	(80,810)	—
Consolidated totals	$2,315,780	$ —	$2,315,780	$115,610	$1,799,048

Summary of Significant Segment Accounting Policies. Intersegment sales are recorded primarily at market prices. Corporate assets are primarily cash and short-term investments, prepaid expenses, certain receivables and property and equipment.

The Company's timber-related assets and capital expenditures have not been allocated to the various segments because the standing timber and timberlands are not used in the actual operations of the various business segments. The specific identification of timber-related assets with any one segment would be arbitrary. The timber that has been harvested and transferred as logs or pulpwood to the paper and wood products manufacturing segments has been included, at cost, in the operating results of the segments.

The "Other foreign" caption in the analysis of operations by geographic area for 1979 includes results for operations located in France, West Germany and Bermuda. Results for 1977 and 1978 include these operations plus operations in Singapore, the Philippines, Colombia and Guatemala. These latter operations were either closed or sold in 1978, and losses on the dispositions were the primary cause of the 1978 operating loss.

No single customer accounts for 10% of consolidated trade sales, and export sales to foreign unaffiliated customers are immaterial to total trade sales.

11. Quarterly Results of Operations (Unaudited)

The results of operations by quarter are as follows:

	Net Sales		Gross Profit		Income Before Income Taxes		Income		Per Share	
	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978
	(expressed in millions, except per share amounts)									
First	$ 635	$ 586	$112	$111	$ 47	$ 49	$ 35	$ 30	$1.27	$1.11
Second	753	694	146	140	71	68	54	40	2.01	1.48
Third	777	665	139	120	60	52	50	32	1.88	1.18
Fourth	752	628	130	114	45	47	36	34	1.36	1.25
	$2,917	$2,573	$527	$485	$223	$216	175	136	6.52	5.02
Extraordinary items							—	(3)	—	(.11)
Net income							$175	$133	$6.52	$4.91

The following information describes by quarter the material unusual or infrequent events that occurred during 1979 and 1978.

First Quarter. The seven-month strike at the Company's Pacific Northwest pulp and paper mills was settled during the first quarter of 1979, and two of the Company's Canadian mills were nearing full production after being curtailed for several months because of strikes. Strikes accounted for about 108,000 tons of lost pulp and paper production during the first quarter of 1979.

Third Quarter. The Company's pulp and paper manufacturing facilities in the Pacific Northwest were struck by the Association of Western Pulp and Paper Workers in July 1978. These strikes were not settled during the quarter and resulted in a loss of approximately 120,000 tons of pulp and paper production. A strike at the Company's pulp and paper mill and fiberboard mill at International Falls, Minnesota, resulted in losses of approximately 13,000 tons of pulp and paper production and 50 million square feet of fiberboard production before being settled in July 1978.

Fourth Quarter. The strikes at the Company's Pacific Northwest and two Canadian pulp and paper manufacturing facilities remained unsettled at year-end 1978. The strikes resulted in a loss of approximately 193,000 tons of pulp and paper production during the fourth quarter of 1978.

The Company made provision for an extraordinary charge related to litigation settlements and recorded an extraordinary credit related to the sale of its remaining realty business. See Note 4 for further information.

The effective tax rate for 1979 was 21.5%, compared with the 37.07% rate for 1978. Earnings per share in the fourth quarter of 1979 and 1978 were increased 4¢ and 15¢, respectively, as a result of decreases in the effective tax rates. The 1979 tax rate was lower primarily because of investment tax credits from the Company's capital program, a higher proportion of timber capital gains income and the reduction in the Federal income tax rate.

12. Replacement Cost (Unaudited)

A continuing pattern of long-term inflation results in increased operating costs and significantly higher costs to replace the Company's productive capacity. The Company offsets these increased costs through a combination of improvements in efficiency and productivity and, when appropriate, increases in prices. The ability to compensate for the impact of inflation with respect to particular products at any given time is also impacted by market and economic factors which may delay recovery of cost increases. In accordance with a Securities and Exchange Commission requirement, the Company has estimated the cost of replacing the major elements of its productive capacity and the impact on depreciation expense if, in fact, these assets were replaced.

For purposes of these estimates, the term "replacement cost," as defined by the SEC, is "the lowest amount that would have to be paid in the normal course of business to obtain a new asset of equivalent operating or productive capability," based on prevailing prices at December 31, 1979 and 1978. Using this definition and applying it to all Company facilities (excluding assets which are not expected to be replaced), it is estimated that the total replacement cost of these facilities would be approximately 240% of original cost in each year. Based on these higher replacement costs, straight-line depreciation expense in each year would be approximately double the comparable historical depreciation expense related to these facilities.

Certain operating cost savings would result if existing assets were replaced with the new and more efficient facilities assumed in estimating the replacement cost of productive capacity. The Company has not estimated precisely these cost savings, but believes they would be large enough to substantially offset the higher depreciation expense implied by the replacement cost depreciation calculation. These cost savings would result from reductions in costs for direct labor, materials, repairs and maintenance, energy and other indirect costs, less waste and improved quality.

The Company's report on Form 10-K contains an expanded coverage of the replacement cost of inventories and productive capacity and the related impact on cost of sales and depreciation and cost of company timber harvested for the years ended December 31, 1979 and 1978.

Auditors' Report

To the Shareholders of Boise Cascade Corporation:

We have examined the balance sheets of Boise Cascade Corporation (a Delaware corporation) and subsidiaries as of December 31, 1979 and 1978, and the related statements of income, changes in financial position and shareholders' equity for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Boise Cascade Corporation and subsidiaries as of December 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Boise, Idaho,
February 1, 1980.

Effects of Inflation/Supplementary Information

Our economy has experienced relatively high rates of inflation for a number of years, and current indications are that this trend will continue. It has long been recognized that inflation causes difficulty in measuring and comparing financial information over periods of time. Financial statements prepared in accordance with generally accepted accounting principles, on an historical cost basis, report the actual number of dollars received or expended without regard to changes in the purchasing power of the currency. Capital expenditures made over a long period of time are added together as though the dollars were equivalent units of measurement. The amortization of these costs incurred in earlier years is deducted from current revenues in the determination of net income. Therefore, it is often necessary to make a number of adjustments to the traditional financial statements for a proper assessment of economic results.

During 1979, the Financial Accounting Standards Board (FASB) issued Statement No. 33, *Financial Reporting and Changing Prices,* which sets forth certain supplementary disclosure requirements designed to assist users of financial statements in understanding the impact of inflation on the company. Two different methods were prescribed by the FASB for calculating this supplemental information. One method provides data adjusted for general inflation using the Consumer Price Index for All Urban Consumers (CPI-U) as the measure of the general inflation rate. This method is frequently referred to as the "constant dollar" method since it restates historical cost financial data in terms of units of constant purchasing power.

However, the prices of specific goods and services change for many reasons in addition to the changes caused by the general decline in the purchasing power of the currency. The second method prescribed by the FASB, referred to as the "current cost" method, attempts to measure separately the effects of the changes in the specific price of goods and services.

Management believes that the constant dollar approach is the best technique yet devised to deal with the effects of inflation on the company's financial position and results of operations. This method deals directly with the inflation issue and yet retains the objectivity of the historical transactions. The accounting principles remain the same, and nothing is changed except the unit of measurement.

Although only limited disclosure of the effects of inflation on selected financial statement items is required, complete financial statements, including balance sheets, statements of income and statements of changes in financial position, are useful for an understanding of the effects of inflation on the company. Therefore, we have elected to present these statements, in their entirety, on pages 54 through 56 of this report.

The accompanying financial statements and five-year comparison of selected supplementary financial data have been prepared in accordance with FASB Statement No. 33. They are based on a comprehensive restatement of the historical account balances to reflect changes which have occurred in the general purchasing power of the dollar as measured by the CPI-U. As a result of this restatement, historical, nominal dollars are presented in terms of a common unit of measure, the dollar as valued at year-end 1979.

One of the concepts necessary to understanding this data is the distinction between monetary and nonmonetary assets and liabilities. Monetary items are those assets and liabilities which are or will be converted into a fixed number of dollars regardless of changes in the general price level. Examples of monetary items include cash, accounts receivable, accounts payable and long-term debt. Nonmonetary items, on the other hand, are those assets and liabilities which do not represent a fixed number of dollars but are assumed to retain their original purchasing power as price levels change. Examples of nonmonetary items include inventory and plant, property and equipment.

The restatement of our balance sheets was accomplished by multiplying the nonmonetary components of our historical cost statements by a fraction, the numerator of which was the CPI-U at the end of 1979 and the denominator of which was the CPI-U for the period during which the asset or liability was recorded.

The statements of income were derived by restating sales, cost of sales and operating expenses to the purchasing power equivalent of the dollar at year-end 1979. Depreciation expense and the cost of company timber harvested were determined by applying the normal amortization procedures followed by the company to the restated balance sheet amounts determined as described above.

As the five-year comparison

indicates, "Net sales and other income," as reported in historical dollars, grew at a compound rate of 18%. Stated in constant dollars, the rate of growth was a more modest 10%. This is because a portion of the increase in revenues did not represent increased volume but merely inflation in the prices realized for the products.

"Income from operations" when restated in constant dollars averaged 56% less for the five-year period than the average income as reported. The decline was primarily the result of higher depreciation charges resulting from the restatement of depreciable assets to current year dollars.

However, the lower operating earnings were partially offset by the "Purchasing power gain from holding net monetary liabilities." This gain resulted from the fact that the company held net monetary liabilities during periods in which the purchasing power of the dollar declined. In effect, a portion of the burden of inflation was passed on to the creditors and vendors of the company because liabilities could be paid with dollars of decreased purchasing power. Conversely, those who held monetary assets lost purchasing power because the assets bought fewer goods and services as the price level increased.

In using the accompanying constant dollar data, it is important to understand that the "Purchasing power gain from holding net monetary liabilities" is excluded from "Income from operations" and added directly to "Retained earnings." This gain will be"realized" over time as the monetary liabilities are paid with dollars of decreased purchasing power. On the other hand, the effect of inflation on nonmonetary assets is recognized over the life of the asset, primarily as increased depreciation expense, and *is* charged against constant dollar income from operations.

In attempting to assess the company's ability to provide funds for replacement of productive capacity and the payment of dividends, the users of constant dollar statements must understand the role these "monetary gains" play. While it is true that "monetary gains" do not produce an immediate cash flow to the company, it is equally true that the increased depreciation expense charged against income from operations does not produce an immediate cash requirement.

The supplemental Statements of Changes in Financial Position expressed in constant dollars appearing on page 56 are, in the opinion of management, useful statements in evaluating the sources and uses of working capital. These statements reflect total 1979 working capital provided from operations of $251 million in constant dollars, compared with $291 million as originally reported, a decline of 14%.

The technique employed to develop the supplemental constant dollar data results in restatement of prior year amounts to current year dollars. Therefore, the amounts shown for any one year will automatically change in subsequent years. For this reason, the most useful purposes of this information are (1) the comparison of one year's adjusted results to another and (2) trend analysis considering several years in succession.

Of particular concern is the "hidden" tax being borne by the company due to inflation. The accompanying data reveals that, over the five-year period, the average effective tax rate on income from operations in constant dollars was actually 59%, substantially in excess of legislated rates. Including the "Purchasing power gain from holding net monetary liabilities," the effective tax rate in constant dollars averaged 43%, still a substantial increase over the 34% average rate originally reported. This occurs because the company is not permitted to deduct, for tax purposes, the inflation adjustments made to operating costs and expenses. Therefore, the income taxes actually paid by the company often exceed the statutory rate after income is adjusted for inflation.

As permitted by FASB Statement No. 33, the company has elected not to include supplementary data using the "current cost" method in this report. The methodology for determining current costs must be developed, and the preparation of the data will require a number of estimates and subjective judgments that must be evaluated by management.

Five-year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Inflation

Boise Cascade Corporation and Subsidiaries

	1979	1978	1977	1976	1975
	(dollars in thousands, except per share amounts)				
Net sales and other income					
As reported	$2,948,440	$2,595,960	$2,324,310	$1,961,810	$1,483,820
In constant dollars	**$3,103,402**	**$3,046,357**	**$2,932,900**	**$2,634,769**	**$2,107,386**
Income from operations					
As reported	$ 174,920	$ 135,700	$ 115,610	$ 97,330	$ 63,890
In constant dollars	**$ 65,619**	**$ 68,473**	**$ 54,944**	**$ 56,893**	**$ 10,353**
Purchasing power gain from holding net monetary liabilities	**97,741**	**58,262**	**36,327**	**18,846**	**24,500**
	$ 163,360	**$ 126,735**	**$ 91,271**	**$ 75,739**	**$ 34,853**
Income per share from operations					
As reported	$ 6.52	$ 5.02	$ 4.00	$ 3.30	$ 2.16
In constant dollars	**$ 2.44**	**$ 2.52**	**$ 1.89**	**$ 1.92**	**$ .34**
Purchasing power gain from holding net monetary liabilities	**3.64**	**2.16**	**1.26**	**.64**	**.83**
	$ 6.08	**$ 4.68**	**$ 3.15**	**$ 2.56**	**$ 1.17**
Effective income tax rate					
As reported	21.5%	37.1%	41.1%	36.0%	35.5%
In constant dollars	**43.5%**	**57.9%**	**65.1%**	**56.5%**	**82.9%**
In constant dollars including purchasing power gain from holding net monetary liabilities	**23.7%**	**42.6%**	**52.8%**	**49.3%**	**59.0%**
Dividends declared per common share					
As reported	$ 1.50	$ 1.25	$ 1.10	$ .76	$ .61
In constant dollars	**$ 1.59**	**$ 1.47**	**$ 1.39**	**$ 1.03**	**$ .87**
Shareholders' equity					
As reported	$1,178,400	$1,058,397	$ 959,088	$ 945,371	$ 866,241
In constant dollars	**$1,833,440**	**$1,730,364**	**$1,646,873**	**$1,683,720**	**$1,633,071**
Shareholders' equity per common share					
As reported	$44.09	$38.99	$35.34	$31.90	$29.26
In constant dollars	**$68.71**	**$63.84**	**$60.77**	**$56.91**	**$55.25**
Market price per common share at year-end					
As reported	$33.88	$26.75	$25.38	$33.63	$23.63
In constant dollars	**$33.88**	**$30.31**	**$31.35**	**$44.35**	**$32.66**
Year-end Consumer Price Index for All Urban Consumers (CPI-U)	229.9	202.9	186.1	174.3	166.3

Constant dollar amounts have been determined based on a comprehensive restatement of historical financial statements utilizing the 1979 end-of-year level of the Consumer Price Index for All Urban Consumers (CPI-U).

Balance Sheets Adjusted for the Effects of Inflation

Boise Cascade Corporation and Subsidiaries

	December 31			
	1979		1978	
Assets	As Reported	Constant Dollars	As Reported	Constant Dollars
	(expressed in thousands)			
Current				
Cash and short-term investments	$ 42,315	$ 42,315	$ 63,692	$ 72,163
Receivables, net	263,850	263,850	237,641	269,247
Inventories	377,897	393,765	341,087	393,115
Other	9,380	9,759	34,797	42,623
	693,442	709,689	677,217	777,148
Property				
Property and equipment	1,885,183	2,949,856	1,535,938	2,618,367
Accumulated depreciation	(627,751)	(1,301,452)	(559,792)	(1,203,759)
	1,257,432	1,648,404	976,146	1,414,608
Timber and timberlands	209,992	366,889	181,745	343,686
Timber deposits	12,995	13,730	14,807	17,414
	1,480,419	2,029,023	1,172,698	1,775,708
Other				
Investments in joint ventures	85,144	167,210	75,802	153,249
Other assets	50,052	59,415	56,230	71,573
	$2,309,057	$2,965,337	$1,981,947	$2,777,678

Liabilities and Shareholders' Equity				
Current				
Notes payable	$ 24,936	$ 24,936	$ 42,730	$ 48,413
Current portion of long-term debt	29,123	29,123	28,811	32,643
Income taxes payable	2,328	2,328	—	—
Accounts payable and accrued liabilities	353,013	354,253	328,406	373,016
	409,400	410,640	399,947	454,072
Long-term debt, less current portion	571,661	571,661	412,586	467,460
Other				
Deferred income taxes	94,903	94,903	63,633	72,096
Other long-term liabilities	54,693	54,693	47,384	53,686
	149,596	149,596	111,017	125,782
Shareholders' equity				
Preferred stock	5,533	5,533	5,543	6,280
Common stock	66,504	159,088	67,516	161,704
Additional paid-in capital	302,186	751,075	315,655	764,581
Retained earnings	804,177	917,744	669,718	797,838
Treasury stock, at cost	—	—	(35)	(39)
	1,178,400	1,833,440	1,058,397	1,730,364
	$2,309,057	$2,965,337	$1,981,947	$2,777,678

Statements of Income Adjusted for the Effects of Inflation

Boise Cascade Corporation and Subsidiaries

	Year Ended December 31			
	1979		1978	
	As Reported	Constant Dollars	As Reported	Constant Dollars
	(expressed in thousands)			
Revenues				
Sales	$2,916,610	$3,081,690	$2,573,110	$3,026,116
Other income, net	31,830	21,712	22,850	20,241
	2,948,440	3,103,402	2,595,960	3,046,357
Costs and expenses				
Cost of sales	2,280,200	2,458,490	1,996,530	2,381,689
Depreciation and cost of company timber harvested	108,990	172,203	91,720	157,765
Selling and administrative expenses	295,860	313,612	254,260	299,949
Interest expense	40,560	42,856	37,830	44,491
	2,725,610	2,987,161	2,380,340	2,883,894
Income from operations before income taxes	222,830	116,241	215,620	162,463
Income taxes	47,910	50,622	79,920	93,990
Income from operations	$ 174,920	$ 65,619	$ 135,700	$ 68,473
Purchasing power gain from holding net monetary liabilities		$ 97,741		$ 58,262

Statements of Changes in Financial Position Adjusted for the Effects of Inflation

Boise Cascade Corporation and Subsidiaries

	Year Ended December 31			
	1979		1978	
	As Reported	Constant Dollars	As Reported	Constant Dollars
	(expressed in thousands)			
Sources of Working Capital				
Income before extraordinary items	$174,920	$ 65,619	$135,700	$ 68,473
Items in income not affecting working capital				
Depreciation and cost of company timber harvested	108,990	172,203	91,720	157,765
Deferred income tax provision	26,660	28,165	13,238	15,568
Equity in earnings of joint ventures	(19,658)	(17,418)	(16,503)	(13,894)
Provision to reduce property and equipment to net recoverable amounts	—	2,034	—	2,535
Total from operations	290,912	250,603	224,155	230,447
Purchasing power gain from holding net monetary liabilities	—	97,741	—	58,262
Items in purchasing power gain not affecting working capital	—	(87,830)	—	(52,673)
Net from purchasing power gain	—	9,911	—	5,589
Extraordinary items, net	—	—	(2,900)	(3,285)
Additions to long-term debt	222,420	235,009	27,439	32,270
Sales of property and equipment	27,674	38,799	22,396	24,863
Increase (decrease) in deferred taxes	4,610	4,812	(7,221)	(8,492)
Sale of net realty assets	—	—	36,612	43,652
Tax benefits not affecting income	—	—	39,752	47,112
Dividends received from joint ventures	8,808	9,201	7,646	8,825
Net increase in other long-term liabilities	7,309	7,676	12,853	15,208
All other, net	4,237	8,530	(8,179)	(1,694)
Total sources of working capital	565,970	564,541	352,553	394,495
Uses of Working Capital				
Additions to property and equipment	402,760	425,554	243,285	286,726
Expenditures for timber and timberlands	37,743	39,576	26,160	30,765
Payments and current portion of long-term debt	63,352	66,846	46,908	56,219
Cash dividends declared	40,461	42,751	34,024	40,014
Purchase of common stock	14,882	15,725	35	40
Total uses of working capital	559,198	590,452	350,412	413,764
Increase (decrease) in working capital	$ 6,772	$ (25,911)	$ 2,141	$ (19,269)
Changes in Working Capital				
Increase (decrease) in current assets				
Cash and short-term investments	$(21,377)	$ (29,848)	$ (7,924)	$ (16,280)
Receivables	26,209	(5,397)	32,322	15,684
Inventories	36,810	650	8,703	(19,334)
Other	(25,417)	(32,864)	25,250	30,675
	16,225	(67,459)	58,351	10,745
(Increase) decrease in current liabilities				
Notes payable	17,794	23,477	(25,087)	(26,624)
Current portion of long-term debt	(312)	3,520	(3,728)	(1,665)
Income taxes payable	(2,328)	(2,328)	37,120	45,842
Accounts payable and accrued liabilities	(24,607)	16,879	(64,515)	(47,567)
	(9,453)	41,548	(56,210)	(30,014)
Increase (decrease) in working capital	$ 6,772	$ (25,911)	$ 2,141	$ (19,269)

Constant dollar amounts have been determined based on a comprehensive restatement of historical financial statements utilizing the 1979 end-of-year level of the Consumer Price Index for All Urban Consumers (CPI-U).

Discussion and Analysis/Summary of Operations

1979 Compared with 1978. Boise Cascade Corporation recorded another excellent year, with income for 1979 of $175 million, 29% greater than 1978's income before net extraordinary items. Sales of $2.9 billion for 1979 were 13% higher than the amount reported in 1978.

The company's paper manufacturing sales were $888 million, up 28%, and operating income rose 58% from the amount reported in 1978. During 1979, the company sold a record 2.0 million tons of pulp and paper products, up 14% from the 1.7 million tons sold during 1978. Losses due to strikes were 108,000 tons for 1979 and 326,000 tons for 1978. Prices received for paper products were also broadly higher than in 1978.

The packaging and office products business sales rose 16% to $764 million, and there was an increase of 42% in 1979's operating income over that of 1978. The sales volumes reported by the Corrugated Container Division in 1979 were up 9% from the previous year's and, when coupled with improved prices, resulted in sharply higher operating income for 1979 compared to the low base in 1978. Higher sales and sharply higher operating income were reported by the Envelope Division based on improved volumes, higher prices and a product mix shift to specialty envelopes. The Office Products Division reported higher sales and significantly higher operating income primarily due to volume improvements. Operating results of the Composite Can Division were down slightly on higher sales. The decline reflects higher costs of operation, modest price increases and a relatively unchanged sales volume.

During 1979, the wood products and building materials businesses were strongly influenced by declining homebuilding activity. Housing starts for 1979 were 1.74 million, much below the 2.02 million units reported for 1978. The reduced demand made it difficult to achieve the price increases required to offset steadily rising costs of operation.

The sales of $697 million reported by the company's wood products manufacturing facilities in 1979 were comparable to the amount reported in 1978. However, 1979's operating income was down 39% reflecting the impact of a declining homebuilding market and rising costs of operations. During the fourth quarter, market conditions resulted in curtailment of certain manufacturing operations.

The building materials business increased its 1979 sales to $794 million, compared with $750 million in 1978. Operating income for 1979 was down 44% from the amount reported in 1978. Sales of the company's Building Materials Distribution Division improved due to a greater number of facilities, but higher costs of operation resulted in a significant decrease in operating income. The performance of the Housing Division in 1979 was mixed. Despite the softening housing market, the operation which supplies sectionalized houses to the Western part of the nation posted its best year ever. The operation which supplies the Eastern part of the country with panelized houses continued to experience difficulties with regional market demand for housing. The Cabinet Division experienced moderate increases in prices and volumes but reported a significant decline in operating income due to higher conversion costs and a less favorable product mix.

Other income for 1979 was $32 million, compared with $23 million in 1978. The increase was primarily attributable to increased earnings of joint ventures (see Note 3 of the Notes to Financial Statements), gains on sale of miscellaneous assets, higher interest income and reduced losses on disposition of marginal operations.

Interest expense increased in 1979 due to increased utilization of commercial paper and the issuance of $150 million of unsecured long-term debt late in the year. Interest of $13 million incurred in conjunction with certain major capital projects was capitalized during 1979.

The 1979 effective tax rate was 21.5% compared with 37.07% in 1978. The lower rate was attributable to investment tax credits from the company's capital program, a higher proportion of timber capital gains income and the reduction in the Federal income tax rate. The company's effective tax rate is determined essentially by the relationship between its ordinary U.S. income, taxed at a 46% rate; its capital gain income, taxed at a 28% rate; and the amount of investment tax credit. The company's capital gains result principally from the harvesting of timber. The investment tax credit, which reduces income tax expense, results from qualified capital expenditures.

The company recognized extraordinary items in 1978 (see Note 4 of the Notes to Financial Statements.)

During 1979, the company purchased 418,976 shares of its

common stock (see Note 9 of the Notes to Financial Statements). The purchase and cancellation of these shares did not have a significant effect on the company's earnings per share calculation for the period.

1978 Compared with 1977. Sales for 1978 were $2.6 billion, 11% higher than in 1977. Net income before extraordinary items was $136 million, 17% greater than in 1977 in spite of lengthy strikes in our paper manufacturing operations, a change to LIFO in our domestic wood products and paper manufacturing operations and changes in certain pension assumptions.

Sales of the company's paper manufacturing business were $695 million, down 5% from 1977. Operating income was $91 million, compared with 1977's $115 million. Sales and earnings were lower because of lengthy strikes at several of our paper mills which resulted in a loss of approximately 326,000 tons of pulp and paper production during the year. A total of 1.7 million tons of pulp and paper was sold in 1978, down from the record 1.9 million tons for 1977. Sales prices for our basic paper products were higher.

The packaging and office products business reported sales of $656 million, up 16% from the prior year, and operating income of $36 million, compared with $32 million in 1977. Sales volumes increased 8% for the Composite Can Division, but operating income was only slightly higher because of product mix and increased costs. Corrugated Container Division sales were up slightly, compared with 1977, because of a 6% increase in unit volume. Container prices for the year were comparable with 1977, although in the fourth quarter of 1978, prices for a number of container products were increased. Operating income was lower because of increased operating costs and linerboard cost increases which were not fully recovered by price increases. Sales were up 26%, and operating income increased significantly for the Office Products Division due to higher sales volumes and purchase of additional facilities. Envelope Division sales and operating income were greater because of increased sales prices and a 2% volume increase.

Several factors combined to produce record results for the company's wood products manufacturing and building materials businesses. Housing starts for 1978 were 2.02 million units, up from the 1.99 million units for 1977. Increased sales prices in high volume products, improved operating margins and the purchase of additional facilities contributed to the improved results.

Sales by the wood products business were $699 million, up 10% from 1977. Operating income increased 37% to a record $101 million. Lumber, plywood and particleboard volumes were comparable to 1977 levels. Fiberboard volume was down because of a 33-day strike. Approximately 50 million square feet of fiberboard, 21.7 million square feet of plywood, 25.3 million board feet of lumber and 2.6 million square feet of particleboard production volumes were lost because of strikes. Sales prices for all products were up over those of 1977, more than offsetting the 5% increase in delivered log costs and normal start-up costs at three new small-log sawmills.

The building materials business increased sales to $750 million, a 23% increase, and operating income increased to $41 million from $36 million. Building Materials Distribution Division sales were up 26%. Operating income increased as a result of strong housing starts, increased sales prices and the purchase of additional facilities during the year. Housing Division volume increased slightly. Cost increases came ahead of price increases, resulting in lower margins and lower operating income. Cabinet Division sales were up because of a 5% volume increase, and operating income was substantially better than in 1977.

Other income increased significantly in 1978, primarily because of increased earnings of joint ventures, gains on sale of miscellaneous assets and reduced losses on disposition of foreign and marginal domestic operations. However, interest income was less than in 1977.

Interest expense for the year was down slightly from 1977. Interest of approximately $2 million incurred in conjunction with certain major capital additions was capitalized during 1978.

The effective tax rate decreased to 37% for 1978 as compared with 41% in 1977. The lower tax rate was primarily due to additional investment tax credits resulting from qualified capital projects, energy investment tax credits, and a greater proportion of timber capital gain income.

Products and Distribution Businesses

Products

Paper

Printing and publishing papers
Form bond, uncoated groundwood printing and publishing, coated printing and publishing, cutsize writing and copy, offset, carbonless and base stock

Business papers

Converting papers
Envelope, tablet and release

Newsprint

Packaging papers and paperboard
Wrap, bag and sack paper, linerboard, corrugating medium and fiber can stock

Specialty paperboard
Pressboard products, packaging and graphic arts papers, book cover stock and gasket material

Market pulp
Kraft

Packaging

Composite cans
Cans for packaging motor oil, refrigerated dough, frozen juice concentrate and other products

Corrugated containers
Conventional, specialized and water-resistant containers for packaging produce, processed food and manufactured products

Envelopes
Envelopes, file folders and tags used for communications, identification and protective storage

Wood

Plywood
Structural plywood products in various grades for construction applications

Lumber
Softwood and hardwood from various domestic species

Particleboard
Industrial, underlayment, mobile home decking and cut-to-size

Fiberboard
Siding and insulating sheathing

Logs
Wood chips

Specialties
Moldings, cut stock, beams, finger jointed lumber, laminated beams, decking and bark products

Housing

Panelized and sectionalized housing and light commercial structures

Cabinets

Factory-built modular cabinets

Distribution Businesses

Building Materials

Lumber, plywood, roof trusses, particleboard, fiberboard, roofing, wallboard, insulation, ceiling tile, millwork, windows, screens and doors, builders' hardware and related products

Office Products

Office supplies, stationery, printing paper, coarse paper and office furniture

Executive Officers

John B. Fery
Chairman of the Board and
Chief Executive Officer

Jon H. Miller
President and
Chief Operating Officer

Juan del Valle
Executive Vice President

Will M. Storey
Executive Vice President and
Chief Financial Officer

William Bridenbaugh
Senior Vice President

John E. Clute
Senior Vice President and
General Counsel

John R. Forrest
Senior Vice President

George E. McCown
Senior Vice President

K. Peter Norrie
Senior Vice President

Ronald A. Beauchamp
Vice President

Robert L. Bonaparte
Vice President

Edward W. Cleary
Vice President and
Treasurer

Peter G. Danis Jr.
Vice President

Charles E. Faries Jr.
Vice President

John A. Haase
Vice President

Alice E. Hennessey
Vice President and
Corporate Secretary

Daniel B. Hogan
Vice President

Terry R. Lock
Vice President

Clifford A. Morton
Vice President

David L. Page
Vice President

Richard B. Parrish
Vice President

Ralph G. Peinecke
Vice President

Robert H. Schwarz
Vice President

Frank J. Toner
Vice President

Vernon R. Veron
Vice President

Rex L. Dorman
Controller

General Offices: Boise, Idaho

Transfer Agents:

Common Stock
Boise Cascade Corporation, Boise, Idaho
Morgan Guaranty Trust Company
of New York, New York

Preferred Stock
Boise Cascade Corporation, Boise, Idaho

9.90% Notes Due 1986
Boise Cascade Corporation, Boise, Idaho
The Chase Manhattan Bank, N.A., New York, New York

Auditors:
Arthur Andersen & Co.

The Annual Meeting of the shareholders of Boise Cascade Corporation will be held at 10:00 a.m. (Mountain Daylight Time), May 13, 1980, at the offices of the company, Boise, Idaho.

Proxy material will be mailed to shareholders of record on or about April 4, 1980.

The Company's Form 10-K, filed with the Securities and Exchange Commission, and a 1979 Statistical Information booklet are available upon request. Write:

Corporate Communications Department
Boise Cascade Corporation, One Jefferson Square, Boise, Idaho 83728

Shareholders of the company's common stock may participate in our Dividend Reinvestment Plan. For information, call 208/384-7590 or write:

Shareholder Services Department
Boise Cascade Corporation, One Jefferson Square, Boise, Idaho 83728

Doug Bartels
Public Relations Manager

For Martin Lynch

One Jefferson Square
Boise, Idaho 83728
208/384-8125

Boise Cascade Corporation

Board of Directors

*__Charles A. Anderson,__ former president and chief executive officer of SRI International, Menlo Park, California (3)

Anne L. Armstrong, Armstrong, Texas; former United States ambassador to Great Britain and counselor to the President of the United States (3) (4)

James E. Bryson, investor, Newberg, Oregon; former president, Herbert A. Templeton Lumber Corporation and Valsetz Lumber Company, Portland, Oregon (1) (2)

*__William S. Cook,__ president and chief operating officer of Union Pacific Corporation, New York, New York (4)

Frederick L. Deming, president, National City Bancorporation, Minneapolis, Minnesota; former undersecretary for monetary affairs of the United States Treasury Department (2) (3)

Robert Faegre, former president, Minnesota and Ontario Paper Company, Minneapolis, Minnesota (4)

John B. Fery, chairman of the board and chief executive officer, Boise Cascade Corporation, Boise, Idaho (1) (3) (4)

Wilbur G. Fienup, former president of R. C. Can Company, now Boise Cascade Composite Can Division, St. Louis, Missouri (3) (4)

Donald S. Macdonald, partner, McCarthy & McCarthy, Toronto, Canada; former member of the Canadian House of Commons and Cabinet (1) (2)

Jon H. Miller, president and chief operating officer, Boise Cascade Corporation, Boise, Idaho (1) (4)

William H. Morton, former president, American Express Company, New York, New York (3) (4)

John S. Pillsbury Jr., chairman of the board, Northwestern National Life Insurance Company, Minneapolis, Minnesota (1) (2)

Theodore H. Smyth, investor, Santa Barbara, California (1) (4)

E. R. Titcomb, president, Rodman Industries, Inc., St. Paul, Minnesota (2) (4)

*Elected since last Annual Report.

1. **Member of Executive Committee, John B. Fery, chairman.** When necessary between regularly scheduled board meetings, the Executive Committee has the authority to exercise most of the powers and authority of the full board in management of the business and affairs of the company.

2. **Member of Audit Committee, John S. Pillsbury Jr., chairman.** The Audit Committee meets periodically with management, the company's internal audit staff and representatives of the company's independent public accounting firm to assure that each group is carrying out its responsibilities. The committee reviews the scope of internal and external audit activities and the results of the annual audit and recommends a firm of independent auditors each year.

3. **Member of Nominating Committee, William H. Morton, chairman.** The Nominating Committee reviews nominations for election as directors and makes recommendations to the board.

4. **Member of Human Resources Committee, Robert Faegre, chairman.** The Human Resources Committee works with the company's management in the review of personnel programs and compensation.

Boise Cascade Corporation

One Jefferson Square
Boise, Idaho 83728